

SECTION C - SCOPE OF WORK

C.1 Purpose of Empower Pakistan: Trade

Pakistan enjoyed solid economic growth over the period 2001-2006. Pakistan's GDP growth rate averaged 6% plus during the period; the incidence of poverty declined from 34 percent to 25 percent; and the unemployment rate decreased to 6.2%. However, more recently there are reasons for serious concern on the growing constraints to trade - Pakistan's export growth rates dropped from 18% in 2006 to 3.5% in 2007.

Despite extensive reforms over the past decade, Pakistan remains mired as a lower-than-average performer in the World Bank's *Doing Business Indicators*. According to the *Doing Business Indicators*, Pakistan's ranking for trade across borders has dropped from 81 in 2007 to 94 in 2008 out of a total of 174 countries measured by the index. Likewise, the World Economic Forum ranks Pakistan at 84 out of 118 countries according to its *2008 Global Enabling Trade Report*, which measures the extent to which countries have in place the factors and policies for enabling trade.

Pakistan's recent trade slump has been partly attributed to greater competition in the export markets from regional producers, including China. Border closures due to security concerns with Afghanistan are also cited as a contributing factor. However, Pakistan's trade downturn points to much deeper constraints. For example, 99% of Pakistan's estimated 3.2 million businesses are categorized as small, thus raising questions about Pakistan's ability to remain competitive in the global markets. Large companies have proven more capable of influencing favorable trade treatment for their products, but this often doesn't extend to small and medium sized enterprises (SMEs).

USAID's program, *Empower Pakistan: Trade (EPT)*, is a 4 year Economic Growth Activity designed to help the Pakistani economy achieve its export potential by creating an environment that is more conducive to transit, international and regional trade, specifically in enhancing trade ties with Afghanistan. EPT will focus on removing the impediments to trade through policy reform, and capacity building activities that facilitate increased exports from industry, services, and agriculture enterprises. EPT will also help Pakistan take advantage of recently introduced legislation to allow a wide range of Pakistani manufactured goods to enter the United States duty free through the Reconstruction Opportunity Zones. While this legislation is still pending in the US Congress, EPT will prepare for its eventual approval and implementation.

EPT is one element of a comprehensive, multi-dimensional USAID assistance program to empower Pakistan's private sector. Other USAID activities will address improvements in the energy sector, assistance to the agricultural sector, strengthening SMEs, workforce development and policy reforms that encourage business growth. All these activities are intended to be complementary, and USAID intends for all these activities to operate collaboratively. In particular, USAID anticipates that EPT will collaborate extensively with Empower Pakistan: Firms (EPF) to understand the private-sector's concerns in trade.

C.2 Background

a. Pakistan and Project-Specific Context

Pakistan's economy showed robust growth from 2003-2007 and real GDP growth exceeded the 7% annual target in 2004 and 2005. Over the past decade there has been a modest shift from primary to manufactured good exports. For the past several years, Pakistan has been able to expand its trade volumes both between its South Asian neighbors and with the rest of the world. Pakistan's trade is highly concentrated in cotton textile products which accounted for 63% of all exports in 2007.

During the same period, Pakistan undertook a number of economic reforms to promote economic reform and growth. It streamlined taxes, duties, and tariffs, reduced the number of licenses and permits for running businesses, and decentralized regulatory authority. Many laws were rewritten and modernized, and generally the private sector landscape can now be characterized as open and unconstrained. According to the World Bank, "Since 1998, in a major departure from previous strongly protectionist, inward-oriented import substitution policies, the Government of Pakistan has significantly liberalized the trade regime through tariff cuts and rationalization, as well as by removing import quotas, import surcharges and regulatory duties. State enterprises that used to have control over imports and exports of certain products were mostly eliminated. The un-weighted average statutory tariff has fallen from 47.1 percent in 1997/98 to 14.4 percent in 2005/06. Considerable progress has been achieved in simplifying the tariff structure as well as in compressing tariffs."

However, the five years of export growth took a significant slump in 2007 and has continued into 2008. In its fourth quarterly report for 2007, the State Bank of Pakistan recommends a focus on 'devising a comprehensive export promotion strategy.' Some of the major issues it feels need to be addressed in the export strategy are: a) supply side constraints b) delay in the adoption of international standards; c) lack of scale economies; and d) inefficiencies caused by infrastructural bottlenecks.

b. Trade Challenges

Pakistan's export sector faces serious problems, especially with respect to textiles and exports to Afghanistan. The phasing out of the world's Multi-Fiber Arrangement has led to major changes in world textile and apparel trade. One of the major changes was the rapid expansion of China's share of textile and apparel exports. The emergence of China as a dominant market-force was accompanied by significant declines in the prices of textile and apparel products as a result of the increased supplies placed on the market by low cost Chinese companies. The market changes to date would have been even more dramatic had there not been bilateral agreements between China, the EU and the US restricting the growth of China's exports in those markets through 2008. Concerns have been raised that with the expiration of the bilateral constraints that China will rapidly expand its market share in these two dominant import markets.

These developments have special significance for Pakistan because the textile and apparel sector is the backbone of Pakistan's economy. It provides over 60% of merchandise exports, with over 1.3 million employees, accounts for 38% of manufacturing sector employment and contributes 9% to GDP. In addition, the textile/apparel industry includes about 20,000 firms, many of them classified as SMEs. While Pakistan is a significant producer and exporter of

textile and apparel, it has to date remained in the low end of the value chain with a heavy dependence on basic exports. Given the importance of the sector to the overall economy, the performance of the sector has great influence on overall economic growth and if the sector were to lose competitiveness, the impact on employment could be severe. This in turn could well result in political unrest with serious consequences for a fragile democracy.

The reduction in cross border trade with Afghanistan is another area for concern. The decrease in exports in 2007 was particularly evident in trade with Afghanistan and can be attributed largely to the border closures, but other factors included difficulties to claim duty drawback¹, packaging requirements, and Afghanistan's imposition of a new tariff. According to the Trade Development Authority of Pakistan, exports to Afghanistan dropped by 30% during 2006-07. Legal commercial exports dropped to US\$ 745 million during the last fiscal year 2006-07 compared to US\$1.06 billion registered during 2005-06. Pakistan exports to Afghanistan includes: construction material; iron and steel products; basic food items; pharmaceuticals; hardware items; electronics; furniture; agricultural machinery; and leather manufactures. Export cargo is estimated at 820 trucks per day while import cargo is approximately 145 trucks per day.

Trade between Pakistan and Afghanistan is on a much smaller scale than could be possible if existing barriers were eliminated. Improving the border crossing system would be a major step in reducing the cost of trading goods between the two countries. Border crossings between Pakistan and Afghanistan are slow and can be backed up for 3 to 7 days. 100% of cargo shipments are visually inspected without the aid of the technology employed at Pakistan's more modern points of entry. Staff at the Western Borders is not trained as well as other customs staff around the country. Border posts struggle with basic infrastructure issues including crippling power cuts. Customs also lacks a proper risk assessment system, which increases inspection times and delays the transport of goods.

Transit trade through Pakistan to and from Afghanistan also faces many constraints: 1) lack of harmonization of documents; 2) lack of harmonization of opening times of inspection; 3) lack of coordinated inspection; 4) restrictions on Afghanistan trucks beyond Peshawar; 5) monopoly on transport on the Karachi-Peshawar route by the national trucking company 6) long delays in clearance; 7) pilferage; 8) an antiquated transit agreement; and, 9) long delays at Karachi Port;

Beginning in 1998 the GOP initiated policies that significantly liberalized the trade regime through tariff reductions and rationalization. As a result, the average statutory tariff fell from 47.1% in 1997/98 to 14.4% in 2005/06. However, there is need to continue the reduction of tariffs - tariff on imports is a tax on exports. Meanwhile, a functioning duty drawback system exists but it needs to be simplified and time required for the processing of duty drawback submissions needs to be shortened. The same can be said for sales tax rebates. Given the high cost and scarcity of finance to exporters, delays in the processing of the rebates impose real costs to firms.

For more information on trade challenges in Pakistan, please read the report titled 'Pakistan's Agenda for Action – Interim Report on Business Climate, Legal and Institutional Reform'. This report is on USAID-Pakistan website at: <http://www.usaid.gov/pk/ecgrowth/index.htm>. Additionally, a more recent report on Pakistan's trade environment is titled 'Hard Sell: Attaining

¹ The Government of Pakistan under SRO 735(1)/2005 date July 21, 2005 requires exporters to verify exports to Afghanistan on the basis of copy of import clearance documents by Afghan Customs Authorities across the border

Pakistani Competitiveness in Global Trade' (ISBN 1-933549-33-5) published by the Woodrow Wilson International Center for Scholars.

c. Responses to Date

To support export development, US legislation is pending that would allow the creation of Reconstruction Opportunity Zones (ROZs) in Pakistan along the western border², from which a broad range of goods could be exported duty-free to the United States. The objective of this legislation is to stimulate economic activity and development in the border region of Pakistan, and to "support the three-pronged United States strategy in Afghanistan and the border region of Pakistan that leverages political, military, and economic tools, with ROZs as a critical part of the economic component of the strategy."³ Under the proposed system, most articles that are "growth, product, or manufacture" of a ROZ will be eligible for duty-free treatment in the United States. Given that the legislation for the ROZs is still pending, until the legislation is approved, only preliminary planning actions can be undertaken under the project. In the event that the legislation is not approved, the funding budgeted for the ROZs will be re-programmed for other trade activities within the contract. For more information about ROZs, electronic copy of the ROZ Assessment Report is being sent as an attachment, which is not for public distribution other than the bidders. For further information about the proposed ROZ legislation, please referred to bill number S.2776, which can be found at www.thomas.gov.

The United States is also currently negotiating a Bilateral Investment Treaty with Pakistan, which is intended to strengthen the economic ties between the two countries. The treaty is designed to level the playing field between the two countries. The treaty, once passed, should result in increased investment in both countries and increased trade. Under this contract, the implementer will provide technical assistance to the GOP, in terms of capacity building, to assist in addressing the issues requiring resolution as part of the negotiations and for implementing the Treaty.

The Government of Pakistan's 'first-generation reforms' since 2001 included changing macroeconomic policies and building local institutions. Among these institutions include the Trade Development Authority of Pakistan (TDAP). TDAP is responsible for the development of international trade in Pakistan with a primary focus on exports. Under the control of Ministry of Commerce, TDAP also manages the Export Development Fund (EDF). Some of the major activities for the export promotion are: a) carrying out market research for export products; b) sponsoring participation of Pakistani exporters in international exhibitions and arranging exhibitions in Pakistan; c) facilitating trade delegations and establishing display centers in Pakistan and abroad; d) disseminating information on export opportunities through its website; and e) assisting the government in formulation of Export Policies and in the implementation of Trade Policy.

The World Bank and the GOP are implementing The National Trade Corridor Improvement Program (NTCIP), consisting of key policy reforms along with a comprehensive investment program for linking Pakistan's major ports in the South with its major cities and trade corridors to the North. The objective is to promote an integrated approach to planning, investing and managing the National Trade Corridor transport logistics system. The total contribution of the

² The ROZs would accept goods from but not be located within the Federally Administered Tribal Areas.

³ US Department of State Press Statement, Sean McCormack, Spokesman Washington, DC March 14, 2008

World Bank for the project is an International Bank for Reconstruction and Development (IBRD) loan of US\$300 million.

The European Union (EU) is funding a Trade Related Technical Assistance (TRTA) activity to provide support to Government of Pakistan in building the necessary capacity to address trade related issues. The TRTA program involves strengthening of metrology, standards, testing and quality (MSTQ) infrastructure, in Pakistan. Additionally, UNIDO is upgrading 18 various measurements and testing laboratories oriented to export industries for international accreditation to ISO 17025 by providing equipment and training as well as fielding experts to assess, upgrade and conduct accreditation of these laboratories.

C.3 USAID EMPOWER PAKISTAN: TRADE

a. Goal

The Empower Pakistan: Trade (EPT) activity will improve the trade environment in Pakistan, thereby resulting in expanded exports, more competitive enterprises and increased employment opportunities. The project will accomplish this through policy level interventions, capacity building, support in implementation of duty free zones, and to firms located in these zones, for exports.

b. Objectives

In particular the EPT will:

- Improve the overall trade environment by **reducing the cost and time of exporting/importing goods**. Activities include improvement in the customs regime, capacity building of officials, reform of trade policies/regulations, streamlining processes and related activities. This activity will require project staff to partner with public and private stakeholders to encourage approval/adoption of drafted legislation and regulations and implement any such approved legislation to ensure reduced cost and time of exporting/importing goods. In addition, this activity will be measured on the level of collaboration of EPT with the sectors selected in the Empower Pakistan: Firms activity.
- **Improve the cross border trade with Afghanistan** by decreasing the time and expense to export/import goods with Afghanistan. Activities will include strengthening the capacity of border officials to facilitate trade and working with the newly formed Afghan-Pakistan Chamber of Commerce to increase transit trade between Pakistan and Afghanistan. Discrete infrastructure improvements will also be implemented which enable increased cross border trade and reduce cost and time of trading with Afghanistan.
- **Implement the Reconstruction Opportunity Zones (ROZs)** legislation by collaborating with local and national officials to identify necessary improvements in designated ROZ locations, establish facilities and assist the newly established ROZs, and firms located within the ROZs, to export to the US. Should the ROZ legislation not be approved, USAID expects the remaining project objectives can still be met by the contractor. In addition, if the ROZ legislation is not approved, the funds for this activity can be reprogrammed within the contract.

- Provide capacity building to promote **implementation of the Bilateral Investment Treaty**, which will facilitate increased investment and trade between Pakistan and USA. Should the Bilateral Investment Treaty not be approved, USAID expects the remaining project objectives can still be met by the contractor and the resources budgeted for this activity can be reprogrammed within the contract.

Effective collaboration will be a key attribute for success of EPT. Collaboration will take several forms, including strengthening interactions with: 1) local and national level public officials, 2) other donor activities related to trade and, 3) other USAID economic growth activities. Among the USAID activities, EPT is expected to have extensive collaboration with the new Empower Pakistan: Firms activity, which will provide firm level assistance and recommend policy/regulatory reforms at the national, provincial and district level. EPF will inform EPT of trade related issues that constrain private sector development. While EPF will be concerned with private sector development in general, EPT will focus on the export enabling environment and assisting firms located within the ROZs with exports to the US.

Another common objective shared by EPT and EPF is to improve Pakistan's standing as measured by the World Bank's Doing Business Survey, in particular for those indicators that measure the trade environment. EPF and the World Bank are extending this survey to the sub-national level.

C.4 STATEMENT OF WORK

a. Overview

EPT priorities should be driven by the implementation of activities that are responsive to the private sector, especially the sectors supported by EPF, and select interventions which aim to provide maximum benefit. While some EPT technical assistance will be directed to government officials (Customs, Trade Development Authority of Pakistan, etc.), these efforts should only occur when there is a clear and identifiable benefit to the private sector and it enables the public sector organizations to transform into customer-oriented units.

b. Results Statement by Component

Component 1: Improved Pakistan Trade Environment

This component will address Pakistan's policy and regulatory impediments to trade at the national level. This may include the need for a better functioning duty drawback system, reviewing trade tariffs, improving trade logistics and simplifying customs procedures. The contractor will be expected to help Pakistan implement the WTO transit provisions and the Revised Kyoto Convention on Simplification and Harmonization of Customs Procedures in addition to building capacity in Pakistan's customs to comply with the SAFE Framework. In some instances, multiple systems are in use by Customs (i.e. 'One Customs' and 'Pakistan Computerized Clearance System'), which should be reviewed by EPT and, in collaboration with the Government, provide assistance to streamline these processes to create improved efficiencies.

In the first four months of the project, EPT will conduct a rapid assessment of the overall trade impediments and prioritize the project interventions to identify those interventions which can achieve maximum impact in terms of increased trade in the short and medium term and determine opportunities to enhance either women-owned business participation in exports or

increase female employment at customs. The assessment should place a high priority on the industrial and agricultural sectors supported by EPF, and avoid any possible overlap with other donor activities. EPT should accelerate efforts to implement improvements that result in increased trade and employment in those sectors supported by EPF. Additionally, EPT should prioritize interventions that assist SMEs.

EPT will judiciously evaluate the capacity of local export institutions, such as Trade Development Authority of Pakistan (TDAP), to improve their capacity to increase trade by enabling them to transform their units. While some local institutions are notoriously ineffective, EPT will assess if project resources can be productively used to mobilize these local export institutions into customer oriented service providers that respond to private sector demands.

The contractor will work with local business associations and chambers of commerce to enhance their ability to advocate for an improved trade environment and enhanced support services, such as certifying laboratories. Many associations and chambers are familiar with the sector development approach and have been partners with the earlier USAID PISDAC project.⁴ This intervention will focus on maximizing public-private partnership both in business issues, and in sharing costs, to galvanize trade. In addition, EPT will work in collaboration with the new USAID activity, called Empower Pakistan: Knowledge (EPK), to provide trade knowledge and facilitate their input and information into economic policy dialogues.

EPT will also identify issues that negatively impact trade service providers and constrain transit trade and the export of Pakistani goods. EPT will develop plans to address these issues and be a catalyst for implementation of these plans with the aim of liberalizing and modernizing the supporting services and infrastructure that support the flow of trade goods.

EPT will deliver targeted trainings to customs officials in a variety of subjects that result in more transparent, timely processing of trade goods and documents. Additionally, EPT will review the multiple customs systems, assess gaps/duplication and develop streamlined processes that reduce the cycle involved in exporting/importing goods. The contractor will encourage and implement activities that result in increased hiring, retention and promotion of female staff in these institutions.

Once the Bilateral Investment Treaty (BIT) between Pakistan and USA is successfully negotiated, EPT will facilitate capacity building to assist in the treaty's implementation as a way to encourage increased trade between Pakistan and USA. Recipients may include the Board of Investment, Ministry of Finance and private sector firms. While trade to the US and EU is significant, EPT should explore opportunities to develop increased trade with regional partners (Central Asia, China, and India). Trade with Afghanistan is addressed in component two of this project.

Technical Deliverables:

- Development of a succinct, quarterly monitoring report that captures Pakistan trade trends for distribution to USAID, donors and local officials.

⁴ The sectors assisted by PISDAC include: Marble & Granite, Gems & Jewelry, Furniture, Dairy, Horticulture and Surgical Instruments. For information about PISDAC see <http://www.usaid.gov/pk/ecgrowth/reports/PISDAC.pdf> and http://www.usaid.gov/pk/ecgrowth/reports/PISDAC_IA.pdf

- Completion of a rapid baseline assessment to prioritize project interventions that might address the various trade impediments, including for women, and identifies institutional capacity constraints to demonstrate areas where EPT can achieve maximum impact on increased exports in the short (12-18 months) and medium (18-60 months) term. Due four (4) months after project begins.
- Development and implementation of a joint strategic plan to address trade facilitation opportunities with the appropriate GOP ministries, including the Board of Investment and Ministry of Finance. Report due six (6) months after the project begins and implementation will continue for life of project.
- Develop and implementation of a training program for customs officials to facilitate more transparency, and timely processing of trade goods and documents. To begin within six (6) months of project start up and implementation will continue for life of project.
- Develop recommendations and implement a program that addresses the key issues that negatively impact trade service providers and constrain transit trade and the export of Pakistani goods. Report due six (6) months after project start up and implementation will continue for life of project.

Illustrative Targets:

The following represent changes that will be brought about with the support of the EPT activities. Their achievement will require actions beyond the control of the program but the program will play a major role in helping Pakistan attain the targets specified.

- Increase Pakistan's overall export trade volumes by 20% by the end of the project.
- By end of project, improve Pakistan's current country ranking in the 'burden of customs procedures,' as reported by the World Economic Forum's Global Competitiveness Report from 82nd to at least 75th
- Improve Pakistan's overall ranking in the World Economic Forum's Global Enabling Trade Report, from 84th to at least 75th by the end of the project
- Increase the contribution of SMEs to overall Pakistan exports by 50% by the end of the project

Component 2: Increased trade at the Pakistan/Afghanistan border

This component will focus on trade impediments on the Pakistan/Afghanistan border that constrain trade between the two countries and transit trade. In the past, trade facilities and staff have benefited from investment in other parts of Pakistan, however, the western borders received the least investment in terms of infrastructure and capacity building. Security issues, trade of illegal goods and the unusual legal framework established in some of the western border areas contribute to a slow, insecure and unpredictable environment for trade.

EPT will address these challenges by investing in capacity building of cross border trade officials, serving as a catalyst for increased government investment in infrastructure, and providing support to local business institutions such as the Pakistan-Afghanistan Chamber of Commerce and Industries to lobby for more efficient cross border processes.

Because of the limited investment the Pakistani border posts on the Afghanistan border have received, it is anticipated that the EPT will need to make limited equipment purchases to support the training and technical assistance programs. A budget of up to \$1 million will be available for

this support. EPT is expected to also work with chambers of commerce and business groups to strengthen their ability to lobby government for border infrastructure improvements. Another USAID funded activity, Community Rehabilitation Infrastructure Support Program (CRISP), can provide support services/funding of up to \$500,000 for individual small infrastructure projects. Once EPT begins project activities, it is anticipated that EPT will prepare and forward proposed activities to CRISP for possible funding. EPT should also facilitate the establishment of Global Development Alliances that establish public-private partnerships to address infrastructure needs, such as warehousing, in collaboration with the Afghan-Pakistan Chamber of Commerce.

EPT technical assistance will be required to employ international standards at the western border posts. EPT assistance will address reengineered processes, SAFE cargo handling procedures and improved risk management systems.

EPT will also conduct and finance joint Pak-Afghan trainings to border officials that encourage streamlining and harmonizing of cross border regulations and procedures. Training activities may address inspections, off-loading and loading, valuation, and transit trade. By encouraging joint cross border activities, EPT will facilitate constructive dialogue by border officials to achieve the following:

- Pakistan co-ordinates with Afghanistan the hours of operation of their adjacent frontier crossing control posts (PATA 7e; Rev. Kyoto Standard 3.3)⁵;
- Pakistan harmonizes with Afghanistan and facilitates the requirements necessary for the issuance of road transport permit (PATA 11.1) ;
- Pakistan provides for priority clearance of transit traffic (PATA 11.1);
- Pakistan provides and maintains rapid and reliable mail and telecommunication services (PATA 7h) at Torkham; and
- Pakistan licenses transit operators according to agreed upon criteria. (PATA 11.2, Protocol No.5).

Technical Deliverables:

While the following illustrative targets are beyond the control of the EPT the following deliverables will assist in their attainment:

- Technical reports, and trainings as needed, to facilitate the development of a joint transit document and single stop inspection between Pakistan and Afghanistan
- Technical reports that support the creation of the single window for customs transaction at Torkham
- Technical reports that support the development of an updated Afghanistan Transit Trade Agreement by the end of the project.
- Analyses of the problems affecting the Torkham, Chaman and other Western Border crossings, and development and implementation of recommendations to reduce the number of hours presently required for each crossing

⁵ Reference is made to the specific provision in the proposed Pakistan-Afghanistan Transit Agreement 2006, and the relevant internationally accepted customs standard contained in the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures.

- Analyses of the transit trade between the port of Karachi and Afghanistan and development of recommendations to reduce the cost and transit time required.

Illustrative Targets:

In addition to the above, the following illustrative targets represent outcomes that the project activities are working towards. Clearly they are beyond the manageable interest of the EPT since their attainment requires action outside the control of the EPT. However they are here to remind everyone of the objectives that the EPT is working toward. The annual work plans will be structured to support the achievement of these targets.

- Establish a “mock” border post in Peshawar to serve as a training facility for customs staff. The facility should be representative of the layout of a typical border crossing in order to provide real life simulation of the cargo clearance transaction including vehicle off-loading / loading. This border post will be financed by project funds and be part of the project. To be completed 12 months after project start up.
- Pakistan and Afghanistan, with project assistance, produce a joint transit document by end of year two.
- Create a single window for custom transactions at Torkham by end of year three.
- Pakistan cooperates with Afghanistan to finance and achieve a 'single stop inspection' where Pakistan and Afghanistan inspect jointly and simultaneously by end of year three;
- An updated Afghanistan Transit Trade Agreement is negotiated between Pakistan and Afghanistan by end of project;
- Reduction in number of hours to cross Torkham, Chaman, and other Western Border crossings;
- 50% increase in the transit trade with Afghanistan formally facilitated by Pakistan Customs.

All targets will be subject to revision and expansion based on the annual work plan submitted to USAID by the contractor and periodic progress reviews conducted by USAID.

Component 3: Support to Reconstruction Opportunity Zones

The attraction of the proposed Reconstruction Opportunity Zones (ROZ) is the duty free access to the United States markets. However, this may not be enough to attract business investment to the region. Most of Pakistan’s industries are currently located on the eastern and southern portions of Pakistan, in and around Lahore and Karachi. The location of the ROZ will be along the western border area, close to Peshawar (see map in Annex A).

The physical location of the zones suggests that transport and logistics costs will be high. This implies that products with high value and low bulk will be more competitive. There is not a large skilled labor base readily employed, and business services are not well established. The FATA, EPJ and EPF projects can assist in addressing these constraints and the EPT will need to collaborate with these activities to provide needed training and business services. The costs of these and other constraints to operating in the zones may be greater than the savings of having duty-free access to the USA, depending on the industry. Businesses interviewed from outside the region in which the Zone could be located suggest that the value of reduced duties would need to be at least 15% of total costs in order to offset the cost disadvantages of operating from Baluchistan and NWFP. EPT will need to identify products which currently face a 15% or higher duty to enter the US and assess their potential for the ROZs.

Despite the challenges, the establishment of special economic zones presents a unique opportunity for creating pockets of streamlined government processes. Originally envisaged as a zone with duty-free access for locally manufactured products, the notion of a separate and distinct zone of operations allows for the Government of Pakistan to create a place of business unburdened by the legacy of laws and bureaucracy that plagues most of Pakistan now. The EPT contractor will help the government of Pakistan to explore the opportunities of creating a zone of reduced regulations.

ROZs can be designated in existing industrial estates as well as new green field estates. Given the challenges with needed infrastructure, it is anticipated that one of the first ROZ designations will likely be an existing industrial estate located in the Peshawar area. All ROZ locations must be mutually agreed upon by Pakistan and the US.

The contractor will help the Government of Pakistan consider the range of possibilities for the ROZ and prepare the groundwork for an extensive combination of legislation, infrastructure development, and marketing efforts to attract investors from within Pakistan and around the world to initiate the ROZ.

In particular, the Contractor will:

- Assist the GOP to draft a strategy for implementing the ROZ.
- Assist firms located in the ROZs to comply with US labor requirements as specified in the ROZ legislation.
- Identify potential opportunities to extend the benefits of the ROZ to trade with other countries, most notably Afghanistan and Central Asia.
- Assist firms located in the ROZs to achieve product, process and service quality standards since EPF will not be working in the ROZs. This will require the contractor to work with the national system of standards, metrology and certification, identifying a variety of service providers that can assist enterprises to achieve standards and certification. Contractor will develop a comprehensive plan for supporting firms achieving international certification. USAID and the companies will undertake this on a cost sharing basis.
- Reduce the risk of illegal transshipments through ROZs and assist firms in complying with ROZ rules of origin and other requirements.
- Promote ROZ benefits beyond duty free access to the United States including such factors as expedited processing for exports and duty drawback, low-cost financing, advanced infrastructure, streamlined processes, income tax preferential status, and access to streamlined specialty commercial courts or rights to use international courts to settle contract disputes. Alternatives to duty drawback that can be done internally and through customs measures that would benefit enterprises and ROZs without the complexities and costs of prepaying and recovering duties can also be considered.
- Ensure that gender considerations are embedded into ROZ implementation plans, which should include incentives for firms that provide support facilities for female employees and/or incentives for women-owned businesses to operate within ROZ.

Technical Deliverables:

- Create a comprehensive plan for the development of the ROZ, including legislative changes and new laws required; a list of possible ROZ locations, descriptions of infrastructure required including utilities, roads, and land preparation; marketing plans for both foreign and local investors; financing plans including potential sources of funds; and management options including various public-private partnership scenarios;
- Develop and implement a marketing strategy to maximize the number of business owners locating in ROZ's.

Illustrative Targets:

- A comprehensive ROZ 'road map' will be prepared (in English and local language) that provides a step-by-step approach to establishing a successful ROZ. To be completed 6 months after project start up;
- Two ROZs established, operational and sustainable by the end of year two, and five ROZs will be established by end of project;
- Exports to the US among firms located in the ROZ will increase by 25% by end of project;
- A minimum of five GDAs established that facilitate increased business activity within the ROZs or cross border trade between Pakistan and Afghanistan.

All targets will be subject to revision and expansion based on the annual work plan submitted to USAID by the contractor and periodic progress reviews conducted by USAID. In the event that the ROZ legislation is not passed, the funding for this component will be reprogrammed within the project.

C.5 PERFORMANCE MANAGEMENT

The contractor shall establish a comprehensive, cost effective, results oriented performance management plan (PMP) that will provide USAID/Pakistan and the Program itself information to improve the Program's performance and effectiveness as well as to inform planning and management decisions. The contractor's PMP will be in line with Mission reporting needs and will be approved by the CTO. **A draft PMP should be submitted as part of this proposal, and should address the following objectives:**

- The causal logic between program activities, outputs, outcomes, and impacts that cover all project components.
- Demonstrate how costs will be tracked for project activities and measured against the value of impacts derived from the activity.
- Delineate the system for monitoring and reporting the program benchmarks, yearly results, and life-of-program results and achievements.
- Explain how key indicators will be measured credibly given issues of attribution. Relevant baseline studies with control groups should be utilized as appropriate.
- As appropriate, allow for reporting on the Operational Plan "F" indicators, which are attached in Annex B.

The final PMP will be submitted to USAID/Pakistan for approval no later than 90 days after the award.

USAID/Pakistan expects to develop a separate, stand-alone M&E facility that may be operational when these EPT is awarded. When operational, this facility will review the Recipient's causal model and PMP and then provide recommendations to inform USAID's final approval of these documents. However, the Contractor will continue to have primary responsibility for conducting appropriate baselines and monitoring its own activities.

Mobilization Plan: Bidders should submit (as an annex, no page limit) a mobilization plan that addresses the 120 day period immediately following project award. The Chief of Party must be physically on the ground within two weeks following the Program start date. The mobilization plan will cover logistics of the project start up and the process and timing of key personnel, plan for hiring local staff, and the plan for the initial activities to be executed by these staff members.

First Year Work Plan: Bidders should submit (as an annex, no page limit) a draft first year work plan that addresses activities and expected results during the first year of project activities. The final version of the first year work plan will be submitted to USAID/Pakistan 90 days after project start up.

C.6 Deliverables—Reporting Requirements and Relationships

The successful offeror will be required to submit reports stated in this section. All Contractor reports must be submitted to the USAID/Pakistan Cognizant Technical Officer (CTO) and the USAID/Pakistan Economic Growth Officer. All reports and work plans must be in English with two (2) copies and a soft copy provided. USAID will distribute these reports and plans, as it deems appropriate. In addition, all reports, work plans and monitoring data must be submitted to any research, monitoring, and evaluation unit that may be established by USAID/Pakistan.

In addition to hard copies, the Contractor will provide the USAID/Pakistan CTO, EG Officer and the Contracting Officer with an electronic message or email containing each report, the preliminary work plan, and annual work plans in MS Word. Financial sections of any reports or plans must be submitted in MS Excel. The Contractor will also provide the USAID CTO with these reports on appropriately labeled diskettes. Acrobat files or other protected software files for any report or plan are not allowed.

The CTO will approve annual implementation/work plans, including the preliminary life of activity implementation/work plan. The CTO will also approve any STTA that is to be provided under the program through approval of the Contractor's STTA SOW that highlights the rationale for selecting the activity and its potential benefits, including a one page executive summary. One copy of all sub-awards, scopes of work for short-term assistance, deliverables from short-term technical assistance, products developed for the government of Pakistan, or other requests for USAID funding must be submitted to the USAID/Pakistan CTO and Contracting Officer in English.

The Contractor will provide the CTO with the following reports during the life of the project:

- Initial Work Plan - A draft "First Year Annual Work Plan" must be submitted within 45 days of award of the contract award. This Work Plan will provide USAID/Pakistan with a clear description of all activities for the first year to include a timeline for activities, an outline for regular reporting to the CTO on program implementation, and a final performance monitoring and evaluation plan which includes a list of indicators. USAID will approve the Work Plan or request revisions within 14 calendar days of receipt. The

Contractor will make any requested revisions and submit a revised final work plan within 7 calendar days of receipt of USAID's comments. USAID will provide formal approval within seven calendar days of receipt of the revised work plan.

The Work Plan should include but need not be limited to the following information:

- Detailed description of all planned activities
 - Level of Effort of key partner and/or staff for each activity
 - Timeline for each activity
 - Budget for each activity
 - Justification/explanation of the sequencing of activities
 - Explanation of proposed methodologies
 - Monitoring and evaluation plan with indicators and targets that clearly demonstrate progress towards achieving the objective.
-
- Annual Work Plans – The subsequent Annual Work plan must be submitted for review and approval by the USAID/Pakistan CTO at least 30 days prior to the end of the program year. This will be a revised Work Plan specifying the activities to be undertaken during the next year of the Component adjusting the preliminary Life of Activity Work Plan as USAID and the Contractor mutually agree and preparing for a transition to a follow-on activity. Work Plans must be linked to the objectives and deliverables of the project components and must describe the type and magnitude of planned activities, the personnel to be involved and the level of effort required. A timetable will be provided detailing the expected activities scheduled for the upcoming year, where and when the tasks will be carried out, the expected levels of effort, and the proposed budget for each activity.
 - Performance Monitoring and Evaluation Plan (PMP) – The Contractor will develop all targets and indicators in negotiation with USAID for inclusion in a final PMP based upon the existing conditions in the project area and USAID/Pakistan's overall PMP. Systems for data collection, quality assurance, mechanism, data storage and analysis will be jointly developed by the Contractor and USAID/Pakistan. The Contractor's initial PMP is to be submitted within 30 days of contract award with the final PMP submitted within 30 days of the conclusion of consultations and comments by USAID/Pakistan.
 - Quarterly Reports. The Contractor will submit brief quarterly reports describing the progress made in achieving the specific results of the previous three months. Detailed information on progress toward project objectives and each STTA activity will be provided to USAID/Pakistan with such information and in a format as USAID/Pakistan and the Contractor mutually agree. Additionally, the Contractor will conduct quarterly performance meetings with the USAID/Pakistan CTO, EG Officer and Strategic Objective Team members with the schedule as agreed to by all parties. The Contractor is encouraged to adopt a performance monitoring and evaluation approach that ensures that lessons-learned from consultations and interactions are incorporated into the project implementation strategies. Performance monitoring and evaluation information must be implemented in conjunction with any additional Economic Growth office partners who are assigned such tasks.

- Quarterly Financial Reports. The Contractor shall submit to the CTO with a copy to Controller, USAID/Pakistan, a quarterly financial report that specifically includes line item budgets and expenditures. This table with expenditures shall be submitted to the CTO no less than 15 days after the end of each (USAID) fiscal year quarter through the life of the project. In addition to this Contractor will submit accruals reports to the CTO on a mutually agreed timeframe.
- Annual Performance Report - The Contractor will submit annual performance reports indicating progress made towards achieving desired results within the given time frame, based on benchmarks and indicators established by USAID and the Contractor. The reports will address and explain any obstacles that have emerged during the reporting period and how they were (or will be) overcome, any deviations from the annual work plan, a projection of activities to be carried out in the next six months period, and a financial status update.
- Final Report. At least thirty days prior to the end of the project, the Contractor will submit a draft Final Report providing a full accounting of its activities and the results obtained. Comments and suggestions for the continuation of any activities and lessons-learned from the primary components will be provided. The USAID/Pakistan CTO will provide the Contractor with comments within 15 days. The Final Report must be submitted one week prior to the end of the project and will address and document:
 - activities funded under the contract,
 - details of the impact of these activities,
 - analyses of the degree to which targets were met and results achieved,
 - lessons-learned, and
 - recommendations for future initiatives.
- In support of USAID/Pakistan's GIS initiative, the Contractor may be requested to report and provide GIS related information on all USAID-funded activities upon USAID/Pakistan's implementation of the GIS program. Following notification by USAID of the commencement of this GIS program, the Contractor will:
 - Submit an initial GIS report within 45 days from notification with follow-on reports following every thirty (45) days (monthly) thereafter. Reports will be recorded in the GIS based on sector and subsector, or program area and program element.
 - The Contractor will be required to report on a number of fields of data. Data will include, as a minimum, for all locations for each program/project: the GPS coordinates (longitude, latitude and elevation) of each program/project activity, the activity type and location, and the related performance indicators. Reports are to be provided in the form and format outlined by USAID/Pakistan/PRM and, as well, will be available at the internet portal once the portal is established. Registration for access to the portal and questions regarding the use of the GIS web site and reporting are to be directed to USAID/Pakistan/PRM.
 - Upon establishment of access for Contractor staff to the GIS portal, the staff will be provided GIS training by USAID/Pakistan. This training will be directed toward basic functions of the GIS and enabling the Contractor to add/update activities on the GIS system. The Contractor will appoint a member of its staff for training, as responsible for executing the GIS reports, to serve as liaison with USAID, and participate in GIS working groups.

- The Final Report will reflect that all activities have been fully GIS reported. Close out actions will not be concluded until such reporting has been completed. GIS reports will be submitted in the form and format prescribed by USAID/Pakistan through the Cognizant Technical Officer or, if available, the cited internet portal.

All reports will be submitted to the following addresses (in addition to the hard copies, an electronic copy will be provided for all reports):

Economic Growth Office
USAID/Pakistan
c/o American Embassy
Diplomatic Enclave, Ramna 5
Islamabad, Pakistan.

END OF SECTION C