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UNLOCKING THE PRIVATE SECTOR'S POTENTIAL

FINAL REPORT: PAKISTAN FIRMS PROJECT

December 2014

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With USAID assistance, Pakistani mango growers were able to meet international quality standards and export their fruit to high-end European markets for the first time.

Front cover: Knitted garment makers in Karachi benefitted from USAID interventions to improve their productivity and market position.

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FINAL REPORT: PAKISTAN FIRMS PROJECT

**Task Order No. 7, Contract No. EEM-I-00-07-00008-00
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(GBTI II IQC)**

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EXECUTIVE SUMMARY

CHANGING MINDSETS IN THE SMALL ENTERPRISE SECTOR

In 2009, USAID selected Chemonics to lead implementation of Pakistan Firms. The goal was to enhance the competitiveness of the small and medium-sized firms that represent 90 percent all enterprises, employ an estimated 80 percent of the non-agricultural labor force, and account for approximately 40 percent of GDP. Firms provided enterprise-level assistance, worked to improve the business enabling environment, and strengthened the institutions that support small businesses.

After a competitive ranking process identified the value chains most likely to succeed in domestic and international markets, small firms within these value chains were challenged to invest their own resources and upgrade their sourcing, production, and marketing practices. The small business owners who took the risk of departing from established practice and putting up a portion of their hard-earned cash are behind the success of Firms. Another success factor was the willingness of the project's many national and provincial government partners to revise outdated laws, revamp internal structures and procedures, and rethink their roles to become business facilitators rather than business operators. This change in mindsets brought business and government closer together and is perhaps the project's most significant achievement.

During its five-year implementation period, Firms encountered many challenges, from a serious insurgency and devastating floods that crippled many small businesses in the country's north and northwest to political changes that brought new leadership to some partner institutions. USAID and the Firms team adapted to ever-changing conditions while providing steady support to partners. This report recounts the events, challenges, lessons, and achievements of Firms and its partners in brief.

The Firms project was awarded on May 7, 2009, and closed on December 31, 2014. As prime contractor, Chemonics was ably supported by nine subcontractors over the course of implementation (see box). Initially budgeted at \$89.8 million, the Firms project was valued at \$92.3 million at the end of 2014.

Firms Subcontractors

- Cogilent Solutions
- Devis Development InfoStructure Inc.
- Dexis Consulting Group
- Financial Consultants (Fincon)
- Innovative Development Strategies
- Making Cents
- Semiotics
- The Kaizen Company
- 2020 Development Company

OVERVIEW

MEETING CHALLENGES AND ADAPTING TO CHANGE

Pakistan's private sector has tremendous potential to generate economic growth, raise living standards, and engage people in productive and rewarding work, undermining the basis for extremism. From 2009 to 2014, the USAID Firms project worked to unlock the private sector's potential by providing targeted assistance to selected small and medium-sized enterprises (SMEs) and supporting national, provincial, and local government initiatives to create a more business-friendly policy and regulatory environment. This report summarizes the challenges and results of that work.

Context and Rationale

USAID has supported economic growth in Pakistan since 2002 through projects focused on trade, employment, and private sector development. While previous projects worked primarily with self-selected industries, Firms chose industry sectors by ranking their relative economic growth, investment, and global competitiveness potential, with the objective of creating employment in 26 target districts. This led to export-oriented work in the agriculture, textiles, mining, and small manufacturing sectors. In response to unfolding events in the north and west — including a serious insurgency in 2009 and devastating floods in 2010 — Firms shifted gears and worked to rebuild and connect the small businesses that are a lifeline for people in these areas, such as hotels and fisheries. Ultimately, Firms worked in 13 sectors and partnered with businesses ranging in size from one person to more than 200.

Firms' assistance encompassed not just enterprises, but also the business environment supporting them. Significant achievements include laying the groundwork to privatize agriculture markets in Punjab, Sindh, and Balochistan; promoting tourism and investment in Khyber Pakhtunkhwa; and building the capacity of the Board of Investment, the Small and Medium Enterprises Development Authority, and other national and provincial business support institutions to carry out their mandates.

Project Summary

The purpose of USAID Firms was to develop dynamic, internationally competitive small and medium-sized enterprises to accelerate sales, investment, and job growth, thereby reducing vulnerability to extremism. Firms worked at the enterprise level to improve inputs, production, processing, and sales, and with government counterparts to ease restrictions, facilitate investment, and simplify the requirements for doing business. Project support for business service providers — firms that help other firms address production, management, and marketing issues — was provided for the first year until USAID shifted the focus to providing direct firm-level assistance.

Value chain development guided work at the enterprise level. For example, in the agriculture sector — which employs 44 percent of Pakistan's population and accounts for 21 percent of its GDP — Firms worked with mango and date growers and processors to meet international demand for high-quality fresh and dried fruit. Work with peach and potato growers in conflict- and flood-hit areas focused on domestic market opportunities. In the textile sector — which accounts for more than 50 percent

of Pakistan's annual export revenues — Firms helped knitwear makers upgrade technology and achieve compliance with ethical manufacturing standards that matter to foreign buyers. Firms partnered with agricultural implement makers to increase domestic and export sales, and with marble miners and processors to change quarrying and finishing practices that waste up to 70 percent of this prized material. The exhibit on page 4 shows the location and distribution of value chain development activities carried out by Firms from 2009 to 2014.

Value Chains Defined

"Value chains encompass the full range of activities and services required to bring a product or service from its conception to sale in its final markets — whether local, national, regional, or global. Value chains include input suppliers, producers, processors, and buyers. They are supported by a range of technical, business, and financial service providers."

— USAID Microlinks, www.microlinks.org

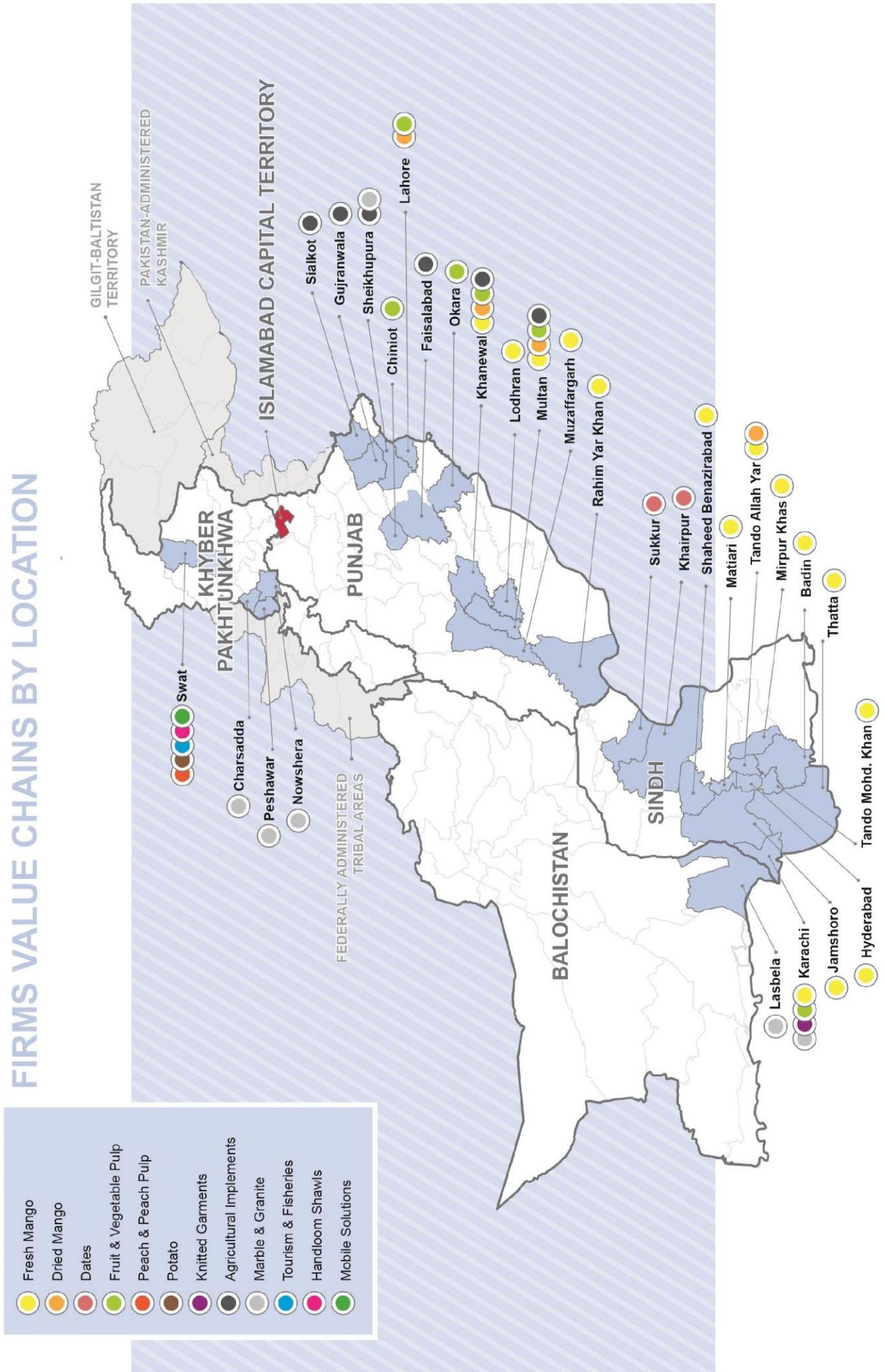
To improve the *business enabling environment*, Firms helped provincial officials develop policies and regulations to encourage greater private sector involvement in agriculture markets, mines and minerals, and livestock. In Khyber Pakhtunkhwa — culturally and environmentally rich, but insecure and vulnerable to natural disasters — Firms worked with a constellation of provincial institutions to clarify their roles and to create a policy framework for attracting private investment in tourism and other sectors. At the federal level, Firms partnered with the Small and Medium Enterprise Development Authority and the Board of Investment to improve internal governance, build management capacity, and align strategies and services with the needs of the market. The table below summarizes business enabling environment-related interventions by location and sector.

Business Enabling Environment Interventions by Location and Sector

Sector	Provinces				Agencies and Territories		
	Balochistan	KP	Punjab	Sindh	FATA	ICT	G-B
Agriculture Markets	✓	✓	✓	✓			
Economic Development		✓	✓		✓	✓	
Fisheries				✓			
Livestock	✓	✓	✓	✓			
Mines and Minerals	✓	✓					
Textiles						✓	
Tourism		✓					✓
Urban Planning			✓				

KEY: KP — Khyber Pakhtunkhwa, FATA — Federally Administered Tribal Areas, ICT — Islamabad Capital Territory, G-B — Gilgit-Baltistan Territory

FIRMS VALUE CHAINS BY LOCATION



Key Results

Value chain indicators. During the contract period, Pakistan's annual economic growth rate fell from nearly 7 percent to below 4 percent, and the private sector bore the brunt of low investment and severe power shortages. Despite these challenges, Firms was able to surpass its targets in four of five major value chain indicators: sales, jobs, investment, and women's participation, as shown below.

Value Chain Interventions: Key Results

No.	Indicator	Life-of-Project Result	Life-of-Project Target	Percent of Target Achieved
1.1	Increase in sales revenue of project-assisted SMEs	\$54,161,265	\$26,422,175	205%
1.2	Value of exports of targeted commodities as a result of U.S. government assistance	\$27,152,579	\$20,308,299	134%
1.3	Increase in employment for project-assisted SMEs	5,609	3,940	142%
1.4	Proportion of women participants in U.S. government-assisted programs designed to increase access to productive economic resources	16.82% (2013-2014 only)	9%	187%
1.5	Value of private sector investment mobilized through formally engaged SMEs (on average dollar-for-dollar cost share by partner SMEs)	\$7,927,234	\$5,009,136	158%

Business enabling environment indicators. Firms worked with both established and newly minted institutions to improve the business enabling environment. Key results were measured by tracking the progress of policy and legislative reforms over time, as shown below.

Business Enabling Environment Interventions: Key Results

No.	Indicator	Life-of-Project Result	Life-of-Project Target	Percent of Target Achieved
2.1	Number and type of policy reforms mutually identified with federal, provincial, and/or district governments, and/or client in consultation with private sector stakeholders in the selected sectors	105	81	130%
2.2	Number of recommendations on policy reforms, business process reforms, and legislative instruments submitted for acceptance to the respective government department	82	89	92%
2.3	Number of recommendations on policy reforms, business process reforms, and legislative instruments accepted by the respective government department	70	57	123%

Knowledge Assets

As noted in a value chain exit strategy report prepared for Firms, it is important to assess the results of the project's interventions not just in terms of observed, attributable results in the growth of jobs, sales, exports, and investments, but also in terms of knowledge assets. Even a large project like Firms engages only a small fraction of value chain firms in enterprise-level interventions, and only a few institutional partners in policy reform. As such, these interventions are pilots of sorts. While they produce short-term, measurable results for participating firms and counterparts, they also create longer-term assets in the form of new products, services, processes, and markets; replicable or scalable business models; and precedents for policy and institutional reform. Below is a summary of key knowledge assets developed by Firms over the five-year contract period.

Value chain development.

- Established a protocol and introduced technology for on-farm fresh fruit processing that unlocked opportunities to break into European and U.S. markets.
- Introduced a contract farming model that is already being independently replicated.
- Introduced manufacturing technologies that can be replicated in similar clusters located elsewhere.
- Developed a scalable business model for public-private partnerships to provide extension services to farmers.

Business enabling environment.

- Set precedents for provincial-level reform by creating customized policy, legal, and regulatory frameworks for a wide range of agricultural, manufacturing, and service sectors.
- Updated major legislation and regulations supporting the SME sector, including the national SME Policy, the SME Bill, and the ordinance governing the Small and Medium Enterprise Development Authority (SMEDA).
- Demonstrated the effectiveness of building consensus among multiple government and private sector stakeholders around a single, comprehensive reform agenda (e.g., tourism in Khyber Pakhtunkhwa province).
- Introduced a replicable public-private partnership model for investment in tourism, education, and health at the provincial level.

Institutional strengthening.

- At the federal level, responded to changes in SME demand for business services with a major overhaul of SMEDA's strategy, management structure, and service offerings.
- Analyzed a key challenge to the Federal Board of Investment — meeting foreign direct investment targets — and proposed reforms to implement a solution.
- Working with the Provincial Relief, Rehabilitation, and Settlement Authority (PaRRSA) in Khyber Pakhtunkhwa, demonstrated the value of embedding technical assistance in a newly created institution to build staff capacity.
- Set a precedent for successfully managing far-reaching structural changes with Khyber Pakhtunkhwa's Planning and Development Department.
- Developed an ambitious and comprehensive strategy for attracting investment in Khyber Pakhtunkhwa and the Federally Administered Tribal Areas and strengthened the capacity of the provincial Board of Investment and Trade to begin implementation.

Looking Ahead

Firms worked with a wide range of government and private sector partners over the five-year contract implementation period. Some overall lessons and recommendations from Firms' experience are summarized below. An expanded list of recommendations

appears in the final chapter. For recommendations to guide future work with specific value chains or government partners, please see the related chapters.

Value chain development.

- Expand pilot phase work across the sectors and incorporate other horizontally or vertically placed subsectors in the development work.
- Improve the capacity of business development service providers to support change management.
- Improve Pakistan's overall image as a quality produce grower, goods manufacturer, and service provider.
- Improve SME access to finance through debt equity and venture capital funding options. USAID's Development Credit Authority could play a key role.
- Increase women's participation in value chains by developing appropriate interventions and encouraging entrepreneurship.
- Develop the workforce by providing meaningful training based on industry demand.

Business enabling environment support.

- Before addressing supply side issues, analyze market dynamics to identify distortions.
- Promote stakeholder collaboration to accelerate policy and regulatory reform.
- Dedicate a share of program resources to supporting consultations and creating sector champions.
- Create sustainable arrangements to carry on project work through local organizations.
- Make knowledge assets available to country counterparts and other implementers.

Institutional strengthening.

- Secure commitments from counterparts to institutionalize key changes.
- Incentivize reform by aligning with government plans and programs.

BEGIN WITH THE END MARKET IN MIND

A value chain approach to private sector development begins with an analysis of the end market — the final domestic or international buyer of the value chain’s product or service. Knowing what the end market wants in terms of price, quality, and other factors makes it possible for firms in the value chain to analyze and upgrade their capacity to deliver what the market demands. Successful firms have a finger on the pulse of the market and the agility to adapt to changes in demand.

End Markets Defined

“End markets are the starting point of value chain analysis. End markets are people, not a location. They determine the characteristics — including price, quality, quantity and timing — of a successful product or service.”

— USAID Microlinks

Most value chain firms target multiple end markets with different characteristics. For example, both domestic and foreign buyers are interested in Pakistani mangoes, but they have different expectations related to quality, quantity, and price. The end market’s business environment plays a role as well. For example, Pakistani mangoes need to meet specific food safety requirements before being admitted to foreign markets.

Selecting Value Chains

The strength of a value chain can be measured by structural factors such as the number of firms operating in it, how closely they are linked, and the value added at each step in the process of bringing a product or service to market. Firms began by analyzing 12 agricultural, industrial, and service sectors for their structural characteristics, their end market potential, and their prospects for creating sales and employment in 26 target districts. A ranking exercise led to detailed analysis of shortlisted value chains and presentation of the results to USAID. Firms selected value chains in collaboration with USAID, guided by criteria such as industry and market structure, export potential, employment generation prospects, geographical spread, Pakistan government priorities, and low barriers to entry for women, youth, and vulnerable groups. Some value chains, such as peach, potato, and handloom weaving, were selected at the request of the government agency responsible for coordinating donor-funded projects in the Swat district of Khyber Pakhtunkhwa province. Ultimately, 13 value chains were selected to receive support from Firms.

Designing Interventions

The next step was to design interventions for each value chain that would have the greatest impact. Firms conducted needs assessments for the targeted sectors to identify leverage points and inform intervention design. For most value chains, this led to multiple interventions. For example, in the agriculture sector, more than 4,022 mango, date, peach, and potato farmers benefited from training in better cultivation and post-harvest handling techniques, resulting in less crop damage and loss. Technology upgrades implemented in partnership with 1,746 mango and date farmers led to dramatic gains in value addition and sales. Linkage with new markets helped

restore livelihoods for 547 potato growers in the troubled northwest and introduced consumers in North America, Europe, the Middle East, and China to Pakistani mangoes and dates, in some cases for the first time. In the manufacturing sector, interventions focused on workforce development, production and processing upgrades, and assistance in meeting international standards. During the Firms contract period, 17 knitwear makers and 10 agricultural implement makers earned international certifications that enabled them to enter new markets or improve their competitive position. In the marble and granite sector, 8 partners acquired new machinery that produced better finishes while reducing raw material wastage and achieving energy efficiency gains.

Improving the Business Enabling Environment

The business environment encompasses everything from international trade agreements to national and local laws and regulations to informal customs and practices. When analyzing value chains, Firms considered the ease or difficulty companies face when negotiating the formal and informal rules of business. The results informed project strategies to create opportunity by easing restrictions, closing regulatory gaps, and supporting institutions that govern or influence the business environment. At the federal level, Firms responded to government requests for strategic support for well-established institutions that needed to refresh their missions, mandates, and market orientation. At the provincial level, Firms initiated interventions to support value chain activities — for example, by recommending abolition of outdated agriculture markets polices while encouraging the adoption of new policies in the livestock and mining sectors. Collaborative policymaking in Khyber Pakhtunkhwa resulted in a comprehensive approach to promoting tourism and mineral investments in that province.

Measuring Results

Firms measured the results of its value chain interventions against key sales, jobs, investment, and gender indicators. Key results for Firms-assisted agricultural and manufacturing value chains are shown on page 5. To measure improvements in the business enabling environment, Firms tracked the progress of project-assisted policy reform at the district, provincial, and federal levels, as well as the advocacy efforts and achievements of partner institutions. The results are shown on page 6. Continual monitoring and evaluation over the five-year life of the project contributed to learning and guided programming changes.

While Firms did not formally measure its knowledge assets — the experiential learning derived from project interventions — a summary of replicable or scalable interventions that can be undertaken by other value chain firms or business enablers appears on page 47.

BOOSTING MARKET READINESS

Given agriculture's contribution to Pakistan's overall economy and to individual livelihoods — the sector employs 44 percent of the population and accounts for 21 percent of GDP — Firms' work in the sector aimed to boost exports and raise farmer incomes. Initiatives in key subsectors ranged from pre- and post-harvest loss reduction programs to export processing, value addition, and marketing activities.

Fresh Mangoes

Situation. Pakistan's mango varieties are judged to be among the best in the world due to their sweetness, fragrance, and smooth texture, but very few people outside Pakistan have ever tasted a Pakistani mango. Although Pakistan is one of the world's top five mango producers, growing more than 1.5 million tons annually in Sindh and Punjab provinces, the country struggles to export more than 5 percent of the fruit due to low quality, inadequate infrastructure, and unexplored market opportunities.

Consumers in U.S. and European markets are eating more mangoes and paying more for them as demand shifts to higher-quality varieties. The United States has become the world's largest mango importer, and mangoes fetch up to 4 euros each in some European markets. Top exporters Mexico, Thailand, the Philippines, Brazil, and Peru have realized most of the benefits until now by exporting directly to high-value retail buyers such as large supermarket chains. Meanwhile, about three-quarters of Pakistan's exports go to low-value wholesale markets in the Middle East. A smaller share goes to U.K. and European ethnic markets, another low-value channel. To shift to higher-value markets, Pakistan needs to deliver large volumes of high-quality fruit that meets international safety standards, and to do so at competitive prices.

Solutions. Starting in 2009, Firms launched an ambitious program to upgrade on-farm infrastructure and technology, train farmers on better crop management and post-harvest care, and introduce Pakistani mangoes to high-value markets. Major interventions are summarized below.

- Work began in the orchards. More than 5,562 farmers from 1,996 orchards learned how to better manage nutrients, fungicides, and irrigation while reducing crop yield losses as high as 40 percent through better harvesting and post-harvest handling practices.
- Through cost-sharing partnerships, Firms provided 15 farms with technology upgrades that included onsite processing lines inclusive of hot-water treatment units, blast chillers, packhouses, and cold storage units. With the new equipment, farmers could cool down the fruit immediately after harvest, give it a quick hot-water wash to prevent decay, sort and grade it, then pack it in sturdy, well-ventilated cartons to protect it during the sea trip to a European or U.S. supermarket, which could take as long as 26 days.
- Through agreements with 30 large mango farms, Firms helped 26 of them earn certifications that opened the door to previously untapped foreign markets. GlobalGAP (Good Agricultural Practices) governs safety and quality standards for on-farm production of fresh fruit and vegetables. HACCP (Hazard Analysis and

Critical Control Points) certifies that the inspected industry follows hygienic processing practices, that workers maintain personal hygiene, and that the product is fit for human consumption.

With these improvements, 15 partners became the first Pakistani mango farmers to have complete harvesting, processing, and packaging operations that could carry their fruit safely from their orchards to discriminating customers in distant markets.

To introduce U.S. and European buyers to Pakistani mangoes, Firms organized meetings with key international buyers and supported partner participation in international fruit exhibitions, including Fruit Logistica, the world's premier fresh produce marketing event. The Snapshot on page 13 describes what happened when partners sent trial shipments of different mango varieties to buyers in Europe, the Middle East, and the United States who agreed to give them a try.

Pooling Resources for Export Readiness

"Sitting in Pakistan makes it very hard to gauge international demand trends and build relationships with prospective importers. Through Fruit Logistica 2011, I learned many things. I have joined hands with other GlobalGAP-certified farms so that we can pool resources and effectively meet international demand and requirements."

— *Shauzab Gardezi, Director, Fruitilicious Inc., Multan, Punjab*

Results.

- **Sales.** Between 2011 and 2014, Firms partners increased direct and indirect sales revenues by \$54.0 million, a gain of more than 250 percent.
- **Exports.** Between 2010 and 2014, the aggregate value of exports by Firms partners increased by \$8.5 million, a gain of 744 percent.
- **Investment.** Between 2010 and 2014 Firms mobilized private investments of more than \$2 million from partners.
- **Jobs.** Firms partners added 1,350 direct and indirect full-time equivalent jobs between 2011 and 2014, a gain of 74 percent over the baseline.

Recommendations.

- Introduce small-scale technology solutions to help relatively smaller growers access better paying markets — for example, desapping techniques to remove latex stains from the fruit, making it more attractive to the customer.
- Support partner efforts to earn additional certifications, such as Food Safety System Certification (FSSC) 22000, so they can access new international markets and attract high-end Pakistani buyers.



SNAPSHOT

New Markets for Fresh Mangoes

Europeans get their first taste of “Sindhirs” and “Chaunsas”



Mango farmers pack and label sorted, washed, and graded fruit for trial shipment to Europe.

On-farm processing lines create new export opportunities for USAID’s partner mango growers

On a summer day in mid-July 2012, 16,000 tons of mangoes from an orchard in the heart of Sindh province made their way by sea to Rotterdam, Netherlands, taking 26 days for the journey in a 40-foot refrigerated cargo ship.

Previously, Pakistani mangoes — rated among the world’s best — rarely traveled so far by sea because Pakistan lacked the technology to keep them fresh for such a long period. Mangoes were sometimes shipped to Europe by air, but at a cost up to four times higher than sea shipment.

A series of trial shipments by sea and air to the Netherlands, Germany, the United Kingdom, and the United States were part of a larger strategy to introduce Pakistani mangoes to high-end markets. Through the Firms project, USAID sponsored grower participation in major European and U.S. food exhibitions and facilitated meetings with high-end and large-volume buyers.

The breakthrough would not have been possible without a comprehensive program of assistance to 13 mango farms in Punjab and Sindh to establish on-farm processing lines. More than 4,500 farm workers were trained in equipment operations, modern harvesting and handling techniques, and food safety and sanitation standards.

By December 2014, overall export volume had increased by 216 percent, and partner farms were earning a 208 percent higher price in international markets.

With USAID’s assistance, Pakistan is emerging as a trusted supplier of high-quality mangoes for global markets.

Telling Our Story

U.S. Agency for International Development
Washington, DC 20523-1000
<http://stories.usaid.gov>

Dried Mangoes

Situation. Every year, dried mangoes win over more consumers in the United States, Europe, and China. For example, between 2008 and 2009 alone, U.S. annual imports jumped by almost 56 percent to nearly 5,500 tons. The Philippines dominates the global market, earning an estimated \$80 million from exports in 2013. Meanwhile, Pakistani mango producers have focused mainly on the fresh fruit market, supplying only limited quantities to processors of juice or pickles, mostly for domestic consumption. Until recently, no one in Pakistan was producing dried mangoes for either the domestic or the export market, and imports were virtually nonexistent.

In 2012, with fresh mango exports from Pakistan just starting up with assistance from Firms, the timing was ideal to introduce foreign buyers to other Pakistani mango products. In the Pakistani mango market, building a market for dried mangoes could increase farmer incomes and create new processing jobs, especially for women. Moreover, dried mangoes offered easier logistics than fresh mango production and an opportunity to use lower-quality fruit that might otherwise go to waste. The dual challenge was to start a new agroprocessing industry from the ground up — the supply side — while simultaneously developing domestic and international demand.

Solutions. On the supply side, Firms began supporting fresh mango partners that were already GlobalGAP-certified, or working toward that goal, to introduce mango drying. The fact that the industry was brand-new offered an opportunity to build in food safety requirements right from the beginning.

Treating the fruit to preserve color before drying is critical to maintain its attractiveness, so project experts tested several pretreatment methods with the help of the Pakistan Council for Scientific and Industrial Research. They also tested different drying technologies, since the choice affects product quality, energy costs, drying time, and workforce requirements. Through additional research, Firms established optimum sweetness and dryness values for the finished product. After partners visited the Philippines to observe best practices in dried mango production, Firms worked with four partners to install gas-heated cabinet dryers on a cost-share basis. Workforce training and establishment of standard processing and food safety protocols completed the Firms package of assistance to dried mango processors.

To market the new product to Pakistani consumers — who would be paying up to seven times more per kilogram for dried mangoes than for fresh ones — Firms took care to start in the off season for fresh mangoes. Selected high-end Pakistani shopping outlets agreed to dedicate shelf space to dried mangoes. Firms supported these partners with a promotional strategy that included point-of-sale advertising, taste panels, and free samples.

Internationally, Firms supported producers' attendance at major food shows and helped set up trial shipments to buyers in the United States, the Netherlands, Turkey, and China. Project experts also met with dried mango producers to emphasize the importance of a consistently high-quality product with appealing packaging that complies with international food safety standards. By the end of 2014, four processing partners had the capacity to collectively produce 80 tons of export-quality dried

mangoes. Partner facilities continue to build their inventory in preparation for increased commercial sales in the future.

Results.

- **Sales.** In 2013, Firms partners increased sales revenues by \$71,928 by producing dried mangoes for the first time.
- **Investment.** In 2013, Firms mobilized private investments of \$191,461 from partners.

Recommendations.

- Support partner efforts to develop a brand, with the goal of increasing their local market penetration and profits.
- Support partner efforts to earn Food Safety System Certification (FSSC) 22000, British Retail Consortium (BRC), and International Featured Standards (IFS) certification to create new domestic and international market opportunities.

Dates

Situation. Dates are consumed globally in fresh and dried form and are used as ingredients in sauces, baby foods, baked goods, and other products. Dates also have spiritual significance for Muslims and are an integral part of important religious holidays. While Egypt, Iran, and Saudi Arabia lead the world in date exports, Pakistan ranks fifth, with at least five commercially viable varieties grown in Sindh and Balochistan provinces. Up to 8 percent of Pakistan's dates are consumed domestically.

However, exports of fresh varieties declined significantly between 2007 and 2011 due to Pakistani producers' inability to meet international quality and food safety standards. As much as 40 percent of the crop is lost due to poor orchard management and inadequate protection from contamination by pests and bacteria after harvest. Firms estimated that export revenues could rise to \$15 million annually if farming and processing practices could be improved. The high proportion of women engaged in date processing — around 70 percent, and including supervisors as well as workers — also made the sector a good candidate for Firms assistance.

Solutions. Workforce training, infrastructure upgrades, and assistance with international certifications and marketing helped Firms partners reduce waste, improve quality, and meet food safety standards. More than 500 participants from partner farms received training in date palm disease management, proper pruning and thinning techniques, and good practices in date harvesting, handling, transportation, and storage. Firms also responded to a request from 45 growers for training on crop management during the rainy season after the growers reported crop losses of almost 40 percent during the 2012 monsoon.

The use of some very simple tools purchased on a cost-share basis — waterproof tarpaulins, plastic crates, aluminum ladders, orchard sprayers, and drying tables — dramatically reduced pest contamination on participating farms. At 45 date farms in

Khairpur and Sukkur districts in Sindh. Firms installed solar-powered tunnel dryers that provide a controlled environment for drying dates at a low energy cost. Three processing facilities received upgrade packages consisting of cold storage units, backup generators, and X-ray scanners to detect the presence of foreign particles such as plastic or human hair. All three contributed a share of the cost by obtaining licenses from Pakistan Nuclear Regulatory Authority. Firms also helped these processors obtain certifications in HACCP and ISO 22000, a food safety management protocol.

On the marketing side, Firms supported partner participation in a Canadian trade fair, provided export market training, and developed new marketing materials, as well as templates for business correspondence, quotations, and invoices. In December 2013, partners began printing their own materials and reaching out to new markets.

Results.

- **Exports.** In 2014, the aggregate value of exports by Firms partners was \$61,698.
- **Investment.** Between 2012 and 2013, Firms mobilized private investments of \$150,997 from partners.

Recommendations.

- Work with farmers and processors or commissioners to formalize supply chain relationships that guarantee processors a sufficient quantity of dates in exchange for higher prices while also eliminating commission-charging middlemen.
- Support farmers and processors in forming associations to catalyze joint action and advocacy.
- Support aggressive brand-building and trade show participation to introduce Pakistan as a source of fresh date exports.

Fruit and Vegetable Pulping

Situation. The global fruit and vegetable processing industry was expected to earn around \$190 billion in 2014. While much of the raw material comes from developing countries, processing capacity is heavily concentrated in the developed countries. Meanwhile, as global demand patterns change, consumers in developed countries are shifting to fresh produce while those in developing countries are buying more and more processed fruit and vegetable products that are often imported. This creates an opportunity for local processors to ramp up their capacity to satisfy local demand.

In Pakistan, insignificant quantities of vegetables and fruits are processed into pulp for juices, jams, and other low-value domestic food products. Most processors focus on mango, to the exclusion of other fruits and vegetables. Quality is inconsistent, processing lines are customized for mango alone, and processors are unaware of the safety and quality standards that would make their products competitive with imports and enable them to enter the export market. To meet the challenge, Pakistan's pulp processors needed to diversify their products, meet international quality standards, and connect with high-end domestic and foreign buyers.

Solutions. Beginning in 2012, Firms worked with six fruit processors in Punjab and Sindh provinces to introduce quality testing, technical skills training, and training in

food safety and quality standards. A gap analysis for nine pulping units identified the machinery and parts required to upgrade their operations to multi-product processing lines; then partners invested in technology upgrades on a cost-share basis. Depending on partner needs, Firms provided equipment for washing, brushing, sorting, peeling, and de-stoning the fruit; cleaning production lines; and pasteurizing and testing the fruit pulp. Subsequently, Firms organized successful trial runs with mango, strawberry, carrot, guava, and apple.

As a result, partner plant utilization rates increased by up to 180 days per year while improving product variety, color, texture, viscosity, and shelf life. Plant personnel received training on machinery operations, equipment upkeep and repair, and good manufacturing practices. By the end of 2014, six processors had received HACCP and ISO 22000 certification.

Marketing assistance included export readiness training, sales generation support, and development of company profiles, websites, sales proposals, and e-mail templates for contacting buyers. One-on-one meetings helped partners prepare customized marketing plans that included a cost structure, allocation of responsibilities, and a timeline.

Results.

- **Sales.** In 2014, Firms partners earned sales revenues of \$8.9 million.
- **Exports.** In 2014, the aggregate value of exports by Firms partners was \$4.29 million.
- **Investment.** Between 2013 and 2014, Firms mobilized private investments of \$292,211 from partners.
- **Jobs.** Firms partners added 106 full-time equivalent jobs in 2013.

Recommendations.

- Arrange marketing tours for partners and business meetings in pulp-buying countries to increase exports.
- Support partner efforts to earn ISO 22000 and HACCP certification so their products qualify for entry into European and Middle Eastern markets.

Peaches

Situation. Peaches are the cornerstone of the local economy in the Swat district of Khyber Pakhtunkhwa province. Between May and September, Swat produces almost half of Pakistan's annual peach harvest. Domestic demand is strong, but Swat's production capacity lags far behind, due in part to post-harvest losses approaching 25 percent. Farmers lack orchard crop management knowledge and good pruning and harvesting tools. Floods destroyed some 20 percent of the region's peach orchards in 2010, at a cost of approximately \$155 million that year.

Solutions. To mitigate the damage, revive the local economy, and create jobs, Firms provided farming kits, trained farmers on good orchard management and harvesting practices, and organized more than 1,300 peach orchards into 33 regional clusters to negotiate better terms with input suppliers and buyers. The farming kits included

pruning shears, a pruning saw, an aluminum ladder, small cutters, plastic bins, a tarpaulin, and harvesting bags. Firms also supported upgrading the capacity of a local pulping unit from 44 tons to 800 tons.

Through a mobile information pilot project (see page 43), Firms brought farmers real-time weather and market information via SMS to help them make sound farm management and marketing decisions. Subsequently, mobile financial services were introduced, enabling farmers to conduct safe and efficient cashless transactions via mobile wallets. To assess the sector's export potential, Firms carried out two studies, one analyzing the likely market and the other gauging the need for infrastructure support such as transportation and cold storage. Early in 2014, four peach growers from Swat traveled to Dubai to participate in Gulfood, the world's largest food and hospitality exhibition, where they connected with buyers who expressed interest in visiting Pakistani orchards and receiving trial shipments.

Results.

- **Sales.** Between 2012 and 2014, Firms partners increased direct and indirect sales revenues by \$23.7 million, a gain of 428 percent.
- **Investment.** Between 2012 and 2014, Firms mobilized private investments of \$1.79 million from partners
- **Jobs.** Firms partners added 2,864 direct and indirect full-time equivalent jobs between 2012 and 2014, a gain of 156 percent.

Recommendations.

- Support formation of a peach growers association to raise issues and develop solutions on a collective platform.
- Support partner efforts to earn GlobalGAP certification and implement a comprehensive export development plan.
- Increase geographic coverage and reach to include more peach farms to meet demand generated by Firms' interventions.



Farmers apply correct sorting and packing techniques, which reduce post-harvest losses.

Potatoes

Situation. Pakistan is one of the largest potato-producing countries in the world. Much of the country's production comes from Punjab province and goes to large commercial buyers to make potato chips and other products until the end of summer, when buyers turn to imports. However, in the cooler elevations of Malakand District, potatoes continue to be harvested well into the fall season. This offered an opportunity to expand potato farming in the north, where thousands of people rely on the crop for their livelihoods.

In Swat, for example, potatoes are a key crop, covering more than 900 hectares and employing some 1,300 people. However, average yield is so low that farmers earn very little for their produce. Also, farmers in remote locations are at the mercy of middlemen who have direct contact with end markets.

Firms estimated that potato farmers in Swat, Chitral, and Upper Dir could increase the value of their produce by almost 70 percent by improving crop management and selling potatoes directly to large buyers rather than going through traditional middlemen who provided farm inputs and purchased crops from individual farmers who lacked market information and collective bargaining power.

Solutions. To connect small potato farmers to a dependable and profitable customer, USAID approached PepsiCo in 2009 to source potatoes from Malakand for its many potato-based brands. As a pilot, PepsiCo provided 40 tons of potato seed to an initial group of 283 farmers with a buy-back guarantee at a fair price.

To help farmers reap a better crop, Firms trained them on crop management and provided knapsack sprayers, protective kits, packing materials, and farming tools such as plastic bins, hoes, shovels, rope, and measuring tape. The farmers were expecting a bumper crop in 2010 when flash floods destroyed the potatoes while they were still in the ground and inundated access routes. Urgently collaborating with the army, USAID facilitated airlifting of the salvageable crop for delivery to PepsiCo to preserve the vital market linkage and continue the program for future seasons.

Subsequently, the relationship continued through an intermediary. Firms helped the farmers form local clusters and select representatives to deal directly with SE Trading, which acted as a consolidator for PepsiCo and a distributor of inputs and finance for



Better crop management led to higher yields for potato farmers in Pakistan's north.

the growers. This business model was replicated in other districts. The arrangement eliminated traditional middlemen who charged up to 10 percent commission on inputs and another 7 percent on sales without prenegotiating a fair price for the growers.

Results.

- **Sales.** Between 2011 and 2013, Firms partners earned sales revenues of \$92,379.
- **Investment.** Between 2011 and 2012, Firms mobilized private investments of \$69,205 from partners.
- **Jobs.** Firms partners added 73 full-time equivalent jobs between 2011 and 2013.

Recommendations.

- Engage other large buyers in the types of buyer-grower partnerships initiated by Firms.
- Provide farmers with advanced training on seed quality and good agricultural practices to improve crop yield.

IMPROVING PRODUCTION AND PROCESSING

In response to different priorities and opportunities, Firms worked in three diverse manufacturing value chains over the contract period. In Pakistan's mighty textile sector, knitted garment makers in Sindh aimed to reach higher-value export markets and streamline production to realize efficiency gains that could have dramatic economic impact. With better market awareness and quality control, Punjab's agricultural tool manufacturers looked to improve both their domestic and export market penetration. With improvements in mining, processing, and workforce skills, raw marble and granite in Khyber Pakhtunkhwa, Balochistan, and the Federally Administered Tribal Areas could be transformed into export gold.

Knitted Garments

Situation. Pakistan's textile sector is an export colossus that earned more than \$13 billion in 2013 — more than half of the country's total export revenues. The knitted garments subsector alone exported goods worth \$2 billion in the same year and employed more than 750,000 people in approximately 2,500 garment manufacturing units. Even so, these firms export mostly to low-value markets due to erratic delivery performance and quality issues. By using middlemen to secure orders, firms lose between 6 percent and 11 percent of the value of finished goods to commissions, resulting in prices that can't match those of regional competitors.

Firms estimated that interventions to improve the subsector's productivity and market position could increase total export earnings significantly. On the production side, firms needed to invest in technology, management, and workforce skills improvements to reduce wastage, increase efficiency, and boost productivity. On the marketing side, they needed to connect directly with buyers, improve on-time delivery performance, and earn international certifications that would open new doors.

Solutions. Firms provided broad-based business development and capacity building assistance to 18 knitted garment manufacturers in Karachi, with the primary goal of



Workers learned to operate new machinery that improved speed and efficiency.

increasing export revenues. The program included skill development, machinery and systems upgrades, and direct linkages with international buyers.

Time and motion studies identified ways to speed up production without compromising quality. Supervisors learned to optimize factory floor layout to improve efficiency, and to manage production lines to avoid bottlenecks. Workers learned to operate sophisticated new machinery and were trained on the principles of “5S,” an international standard for workplace organization. New computer-aided design (CAD) technology automated design and marking, resulting in less wastage. On the management side, partners acquired new enterprise resource planning (ERP) software to integrate, manage, and monitor financial, inventory, and production processes and performance.

Through participation in events such as Magic Market Week — one of North America’s largest fashion industry events — 14 partners forged direct links with U.S. and other international buyers, eliminating commissions to middlemen. By December 2013, 11 partners had earned Worldwide Accredited Responsible Production (WRAP) certification, which gave them access to 700 U.S. companies enrolled in the American Apparel and Footwear Association, while 17 partners were certified as having secure supply chains under the U.S. Customs Trade Partnership Against Terrorism (C-TPAT). Finally, Pakistan’s Environmental Protection Agency certified 14 partners for environmental compliance and provision of a clean, safe working environment.

Results.

- **Export Sales.** Between 2013 and 2014, Firms partners earned export sales revenues of \$7.2 million.
- **Investment.** Between 2013 and 2014, Firms mobilized private investments of \$430,100 from partners.
- **Jobs.** Firms partners added 386 full-time equivalent jobs between 2013 and 2014.

Recommendations.

- Support continued participation in trade fairs to increase the customer base and win new orders.
- Engage consultants to support one full year of lean manufacturing implementation to ensure success.
- Increase the geographic coverage of interventions to knitted garment clusters in Lahore, Faisalabad, and Sialkot.
- Encourage trade associations in Sindh and Punjab to play a major role in their respective provincial clusters by providing market information, supporting their participation in trade fairs, and increasing awareness of related donor and government assistance opportunities.

Agricultural Implements

Situation. Some 500 firms in Punjab fabricate a wide range of self-propelled, tractor-drawn, and hand tools for a domestic market valued at around \$175 million, and for export to regional buyers in Afghanistan, Sri Lanka, and Bangladesh, as well as some developing countries in Africa. While good tools can contribute to higher agricultural production, lower input costs, and less crop waste and loss, Pakistani tools are often of low quality. Manufacturing processes are crude and rudimentary, managers are often untrained, and quality control is lacking. As a result, low-income farmers are forced to use inferior products, and exports are a meager \$7.5 million share of a low-end export market estimated at \$500 million. Among other challenges, firms in this sector were unaware of both the export market potential and threats from competitors.



Better equipment and skills training improved product quality and reduced energy use.

Solutions. Starting in 2012, Firms worked to upgrade the manufacturing capacity of 18 units in Daska, Faisalabad, Multan, Mian Channu, and Gujranwala and five metal casting units that provide them with specialized parts. Interventions focused on improving quality, optimizing processes, building workforce skills, and raising market awareness and visibility.

Most of these units were using traditional welding equipment that consumed enormous amounts of electricity — a distinct disadvantage in Pakistan, where power supplies to industrial consumers are often cut, forcing them to buy generators and fuel. Firms provided partners in six local clusters with 90 energy-efficient welding plants and trained workers in their use, resulting in better quality joints and lower electricity bills. Energy audits of the 18 partner units identified additional ways to improve energy use.

Partners were provided with quality control equipment and related training to test factors such as hardness, welding joint integrity, and the chemical composition and temperature of molten metals. Managers and workers learned about lean manufacturing principles, quality control, process optimization, and workshop layout. Workers were trained in welding, fabrication, heat treatment, metal casting, and machining skills, as well as the “5S” standard, which improves welding quality, workplace organization, and worker discipline.

Subsequently, partner staff visited five leading Pakistani factories to observe good manufacturing practices and application of industrial engineering principles. In 2014, 10 partners visited Turkey to learn how to adapt good manufacturing practices to their units. With project assistance, all 18 partners were awarded ISO 9000 certification for improving their documentation procedures.

The project helped partners develop websites to enhance their marketing reach and increase local sales and exports. A complementary web-based application enables better inventory management and monitoring of manufacturing operations. Early in 2014, eight partners traveled to Dubai to participate in AGRAme, the Middle East's premier agribusiness event, where they introduced their products to international buyers and forged business linkages.

Results.

- **Sales.** In 2014, Firms partners increased sales revenues by \$2.58 million, a gain of 19 percent.
- **Exports.** In 2014, the aggregate value of exports by Firms partners increased by \$214,121, a gain of 54 percent.
- **Investment.** Between 2013 and 2014, Firms mobilized private investments of \$166,899 from partners.
- **Jobs.** Firms partners added 31 full-time equivalent jobs in 2013.

Recommendations.

- Strengthen advocacy and service provision by sector associations so they can influence the provincial and federal governments to undertake policy reform to increase sector competitiveness.
- To address the lack of awareness about good manufacturing practices, develop sector-specific literature and training for wide dissemination among manufacturers.
- Build the capacity of SMEDA or another agency to provide technical, management, and marketing assistance; technology improvements; and training in good manufacturing practices.
- Enlist the commercial counselors at Pakistan embassies in southern African countries to promote Pakistani agricultural implements there.
- Support technical collaboration, partnerships, or manufacturing-under-license arrangements with Turkish, U.S., or European manufacturers of machinery that is in high demand but not currently produced in Pakistan, such as balers.

Marble and Granite

Situation. Nature has blessed Pakistan with a wide variety of valuable marble, granite, and onyx deposits. At least 100 colors and shades of stone have already been identified — more than in any other single country. Stone deposits occur in all provinces but are concentrated in Balochistan, Khyber Pakhtunkhwa, and the Federally Administered Tribal Areas. The sector consists of some 1,200 quarries and 3,000 processors employing 30,000 people.

While global demand is rising for stone cut to specific sizes or shapes (known as dimensional stone) and other value-added products, such as mosaics, Pakistan's exports represented less than one-tenth of one percent of the \$83 billion global market in 2011 and earned just \$80 million against a potential \$2 billion, as estimated by Firms. The absence of provincial-level policies and foreign investment further hamper sector growth.

Until recently, mining operations used indiscriminate blasting to extract stone, resulting in irregularly shaped raw blocks, as well as significant waste of a non-renewable resource. As awareness grows, mining is gradually shifting to modern methods, but meanwhile, many of the quarries with the most sought-after stone colors have closed until the extraction process improves. Local stone processors use low-quality, energy-intensive machinery that creates more wastage and produces poorly finished products that fail to meet international standards.

Solutions. After studying market opportunities and identifying sector gaps and needs, Firms facilitated the creation of a marble consultative group representing quarry operators and stone processors, value-added product manufacturers, traders, and sector associations. The purpose was to elicit input for the overall sector development work plan.

In 2013, Firms began supporting efforts by 12 stone processors to produce higher-quality products, adopt management and conservation practices that lower production costs and reduce waste, and establish new market linkages. Technology upgrades on a cost-share basis provided eight processors with modern equipment that increased production capacity while reducing waste. Eight partners received training on lean manufacturing

principles to improve inventory management, minimize waste, and increase worker productivity. These partners reorganized their factory layouts according to designs based on these principles, and workers in these units were trained on quality, standardization, and manufacturing best practices. Partners were introduced to the requirements for ISO 9000 certification, and all eight had achieved certification by the end of the Firms contract period. Meanwhile, managers from 30 quarries were trained on prospecting, quarry selection, machinery and manpower requirements, and operational best practices.

On the marketing side, Firms met with local builders, developers, and architects to learn more about end user requirements. With project support, 11 partners displayed their products at an industry trade show in Karachi in 2013, and in 2014, 10 partners traveled to Jeddah to participate in Big 5 Saudi, the Middle East's largest building and construction industry event. Firms helped 12 processors develop websites to facilitate business linkages. The results of Firms' work on the policy front are highlighted on page 6.

Results.

- **Sales.** In 2014, Firms partners increased sales revenues by \$39,874.
- **Exports.** In 2014, the aggregate value of exports by Firms partners increased by \$120,044, a gain of 50 percent.



Improving stone quality starts with more efficient and less wasteful mining practices.

- **Investment.** In 2014, Firms mobilized private investments of \$525,201 from partners.

Recommendations.

- Through public-private partnerships, facilitate the provision of machinery and equipment to miners and processors to increase production, reduce wastage, and improve quality, all necessary for targeting middle-to high-end markets.
- Introduce lean manufacturing principles and ISO 9000 standards to more companies in the sector to reduce wastage and prevent machinery breakdowns.
- Establish warehouses in marble and granite importing countries to increase sales and exports.
- Strengthen mining and processing associations so they can provide members with the latest information on production technology, promote collaboration, and engage in effective advocacy.
- Security permitting, provide firm-level assistance processors in Karachi, where Pakistan's major processing cluster is located and which has a proximity advantage for exports.

Handloomed Shawls

Situation. Swat valley in Khyber Pakhtunkhwa province has a long tradition of producing uniquely patterned embroidery, decorative wood and stone carvings, and very fine, lightweight, handloomed woolen shawls worn by both women and men. Some 2,500 small units in the small town of Islampur employ more than 6,000 women and men who produce approximately 100,000 *khaddar* shawls every month between April and August to get ready for winter season sales.



Marketing support connected weavers in remote Swat with new down-country buyers.

Like others in the valley, the weavers are somewhat isolated geographically. They rely on middlemen to bring them raw materials — which represent up to 80 percent of the cost of production — in exchange for prearranged sales that often earn the weavers less than 20 percent of the final sale price.

Solutions. At the request of the Provincial Relief, Rehabilitation, and Settlement Authority (PaRRSA), Firms initiated a program in 2012 to link the Islampur weavers directly with retailers and large buyers. Working with 44 small businesses, Firms provided training in marketing, establishing business relationships, and managing orders. After Firms met with 17 urban retailers and designers to introduce Islampur shawls, representatives of seven firms visited Swat to participate in buyer-seller meetings and to discuss market trends, price, and quality. A series of exhibitions in Islamabad, Karachi, and Lahore provided more opportunities for 24 partners to

showcase and sell their products. Firms also provided technical assistance to analyze the skill levels of the weavers and proposed training to increase efficiency and quality.

Results.

- **Sales.** Between 2013 and 2014, Firms partners earned sales revenues of \$67,883.
- **Investment.** Between 2013 and 2014, Firms mobilized private investments of \$27,867 from partners.

Recommendations.

- Deliver training on product development and design so that weavers can penetrate high-end markets.
- Support participation in trade fairs to increase exposure to international niche markets.
- Offer “master trainer” training to weavers from larger firms so they can take the lead in upgrading skills, strengthening the supply chain, and improving working conditions across the sector.

CREATING OPPORTUNITY

To complement value chain development at the enterprise level, Firms worked with government counterparts to implement related policy interventions, with the goal of developing the SME sector to expand economic opportunity and aligning policies in Pakistan with international best practices. This chapter describes the project's policy and regulatory reform work in agriculture markets, livestock, fisheries, mining, and tourism, as well as project support for a comprehensive framework for urban development in Lahore over the next 20 years.

Business Enabling Environment Defined

"The business enabling environment includes norms and customs, laws, regulations, policies, international trade agreements and public infrastructure that either facilitate or hinder the movement of a product or service along its value chain. The business enabling environment at the national and local level encompasses policies, administrative procedures, enacted regulations, and the state of public infrastructure. In addition to these more formal factors, social norms, business culture and local expectations can be powerful aspects of the business enabling environment."

— USAID Microlinks

Agriculture Markets

Situation. Behind the color and bustle of Pakistan's wholesale produce markets, teeming with trucks and traders, is an antiquated system that serves neither growers nor consumers. Through subsidiary structures such as market committees, the provincial government tightly controls who is allowed to operate as a dealer or agent, sets commissions and fees, and even decides the location of markets. Fees charged by the government are used to subsidize the most inefficient markets rather than to provide marketplace services such as infrastructure, sanitation, or grading of produce. The private sector is virtually absent from this system.

As a result, growers must sell to whoever is licensed, a handful of middlemen profit handsomely, and consumers pay for the inefficiency of the entire system in the form of markups as high as 18 percent at the wholesale level and up to 50 percent at the retail level. Firms estimated that reforming the system to eliminate price distortions, promote private sector participation, and incentivize growers to respond to consumer demand could raise the value of transactions in fruits and vegetables in Punjab and Sindh by \$500 million yearly — a gain of 20 percent.

Solutions. Based on global best practices for horticulture markets, Firms proposed reforms in three areas: the role of government, market management, and private sector participation. Rather than directly operating markets, government will be responsible for policy, quality standards, and oversight. Public markets will be converted into autonomous organizations managed by independent boards. Freedom of marketing will be recognized, and the private sector will be invited to set up wholesale and retail markets under a liberalized and deregulated framework. Finally, an agriculture marketing board representing both the public and private sectors will be established to promote adherence to standards and to provide information, training, and linkages.

Working with all four provincial governments — Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh — Firms proposed legislation to restructure publicly owned market committees, allow the private sector to establish markets, and set up independent agricultural marketing boards. A financial roadmap laid out steps for orderly conversion of the market committees into companies, absorption of legacy employees, and establishment of independent agricultural marketing boards.

Results. By the end of December 2014, all four provincial governments had agreed in principle to the reform program and were at various stages of implementation. In Sindh, where the substantive law had already been passed, changes proposed by Firms to address institutional issues and the corporatization of public markets were in the legislative phase. In Punjab, the chief minister had approved the proposed reforms, and the law drafted by Firms was at an advanced legislative phase. Both the Khyber Pakhtunkhwa and Balochistan governments were at the consultation stage of the legislative process.

Recommendations.

- Work with the provincial governments to formulate subsidiary legislation, standards, and compliance regimes.
- Provide institutional support to set up the Agriculture Marketing Board.
- Support the private sector in developing sound proposals for setting up markets.
- Work with farmers to provide information about the new system and build their capacity to take advantage of competitive market arrangements.

Livestock

Situation. Livestock is the largest commodity in Pakistan, representing more than 50 percent of agricultural GDP and accounting for up to 40 percent of rural incomes. The subsector has tremendous growth potential, with domestic demand for meat and milk outpacing supply while the nearby Gulf countries look to import more live animals and meat. However, productivity is low, farmers have limited access to markets, and resources are often mismanaged by outdated institutions. Government control of milk and meat prices tempts producers to cut costs by skimping on inputs such as feed and vaccinations, with negative consequences for animal health and consumer product quality. Government extension services have low technical capacity to support farmers, and productivity also suffers due to the uneven quality of inputs. Firms estimated that the rollout of reforms could help realize the sector's potential to contribute an additional \$1.5 billion to Pakistan's agricultural GDP.



Livestock markets work best when operated privately, but regulated by government.

Solutions. Firms worked with all four provincial governments to build their capacity as regulators while creating a space for the private sector to provide competitive

marketing, processing, and research services. A modern and comprehensive legal and regulatory regime addressed disease surveillance and control, market regulation and management, slaughtering and meat processing, business standards, animal welfare, and rangeland management.

Results. By the end of December 2014, all four provincial governments were at various stages of deliberating on or implementing reforms proposed by Firms. Punjab had started regulatory framework reform, and three laws drafted by Firms awaited passage. In Sindh, after policy acceptance, work was underway to process a quarantine law, while other laws designed for Punjab were being considered for replication. Khyber Pakhtunkhwa and Balochistan had accepted the proposed reforms in principle but had not yet initiated legislative work.

Recommendations.

- Work with the provincial governments to develop subsidiary regulations, redesign institutions, and reengineer business processes.
- Backed with institutional support and expertise, develop a roadmap to roll out reforms and support the provincial governments' withdrawal from certain areas of service provision.
- Work with the private sector to build capacity to provide services in areas being vacated by government, such as veterinary services, extension services, and vaccine production.

Fisheries

Situation. Pakistan has a 500-mile coastline on the Arabian Sea and an extensive system of inland waters dominated by the Indus River, which stretches nearly 2,000 miles. Despite these generous natural resources, fishing contributes less than 1 percent of the country's GDP and employs only about one million people, predominantly in Sindh province. Firms estimated the sector's potential at \$1.5 billion yearly, about seven times the current level. Issues include overexploitation and unhygienic conditions all along the supply chain. Also, outdated legislation fails to protect the rights and earnings of those who depend on fishing for their livelihoods.

Solutions. In 2013, Firms presented a concept paper on fisheries sector policy reform to the Sindh Livestock and Fisheries Department. The paper addressed the vision and objectives of the department and provided a review of the laws and regulations governing fisheries and fishing rights. Based on the department's comments, in early 2014, Firms conducted a policy and regulatory framework review and a market appraisal of the fisheries value chain in Sindh. The aim was to establish a basis for proposing a new policy and related interventions to promote competitive and economically sound SMEs.

The appraisal recommended infrastructure and regulatory improvements; a centralized data collection system to provide time series data for rivers, streams and lakes; and a master plan for developing fish market infrastructure. Additionally, to facilitate exports, the appraisal recommended developing a trade corridor approach with one-window operation from a designated port. Finally, to improve working conditions in this sector, the appraisal recommended formation of women's community

organizations to look at local health care and education issues, skills training for women factory workers, and alternative livelihood support for fishing families.

Results. By October 2014, the Sindh Livestock and Fisheries Department had agreed in principle to the recommended policy reforms, and the government was expected to begin legislative work during the coming financial year.

Recommendations.

- Work with the Sindh government to develop a comprehensive policy and regulatory framework based on project recommendations.
- Support restructuring of the Directorate of Fisheries to take on redefined responsibilities.
- Support the provincial government in establishing quality standards.
- Develop a regulatory framework for fish markets.
- Support the provincial government's advocacy with the federal government to streamline roles and responsibilities for costal fisheries in post-devolution scenario.
- Support collective organization by poor fishing communities so they can better avail business opportunities.

Mines and Minerals

Situation. Pakistan's marble and granite sector could become a foreign exchange powerhouse with improvements in production, processing, and marketing, but a weak policy and regulatory regime discouraged the significant investment needed to realize its potential. The provinces with the most extensive mineral wealth — Balochistan and Khyber Pakhtunkhwa — had outdated policies and limited capacity to manage mining concessions and enforce lease agreements. Firms estimated that an effective policy and regulatory regime would attract meaningful private investment, which in turn could modernize the sector, leading to a sales increase of more than \$1 billion — more than 19 times the \$52 million level in 2012-2013.

Solutions. The Khyber Pakhtunkhwa government had already recognized the need for policy and regulatory framework assistance. In the summer of 2012, Firms gathered 50 participants from all over Pakistan representing all steps in the value chain — including quarrying, processing, exports, mosaics manufacturers, government officials, and business development organizations — for a consultation on the sector's potential and constraints. They discussed the situation with respect to production techniques, workforce availability, domestic consumption, and exports. Based on their input, Firms developed an overall strategy for the sector and shared it with a core consultative group of public and private sector stakeholders. The next step was developing provincial-level policy frameworks for Balochistan and Khyber Pakhtunkhwa.

A Productive Partnership

"The Government of Khyber Pakhtunkhwa values the keen interest of USAID in development of the province. We also appreciate USAID's focus on sustained reform-oriented interventions that have had tangible effects on the lives of the masses of the region."

— Syed Zafar Ali Shah, Secretary,
Planning and Development Department,
Government of Khyber Pakhtunkhwa

Results. By December 2014, both provincial governments had accepted the draft policies. The Khyber Pakhtunkhwa government requested additional assistance to draft a mining act and mineral concession rules, as well as institutional support for the provincial Mineral Development Department. Subsequently, Firms provided similar assistance to the government of Gilgit-Baltistan Territory.

Recommendations.

- Support the institutional restructuring required to deliver the new policy.
- Train key officials to implement new mining protocols.
- Help prepare the information sets and database needed to attract investment,
- Organize conferences, seminars, and communication campaigns to promote investment opportunities.

Tourism

Situation. Three-fourths of Pakistan's tourism assets, from scenic mountain valleys like Swat and Kaghan to cultural sites from the Buddhist kingdom of Gandhara, are located in Khyber Pakhtunkhwa. However, in 2009, Pakistan ranked 113th out of 133 countries on the World Economic Forum's Travel and Tourism Competitiveness Index. Unexpectedly, the long-running insurgency and subsequent floods in parts of the province provided an opportunity to take a closer look at the overall tourism situation. Firms estimated that annual tourist visits to Khyber Pakhtunkhwa could jump from 1.2 million to 2 million, and annual tourism revenues from \$140 million to \$500 million over a period of five to seven years with better policies, investment incentives, and marketing.

Preliminary research by Firms suggested that the pace of tourism in Swat had slowed even before radicals had infiltrated the area. On the private sector side, complacency and risk aversion characterized the business environment. Swat hoteliers marketed the valley on its natural merits, with no thought for targeting different types of tourists based on their preferences for different activities, experiences, and hotel environments. Business owners who had inherited the job — not unusual in Pakistan — lacked formal training and were often unconcerned about competition and unprepared for sudden changes that could cause a loss of income. On the public sector side, although a devolution process had transferred tourism leadership to the provinces in 2010, tourism was a low priority for government, and the responsible agencies had limited capacity to carry out their mandates.

Solutions. At the provincial government's request, Firms proposed a comprehensive program of assistance that included three main elements:

- *Tourism policy revision.* In partnership with the Khyber Pakhtunkhwa Tourism Department and the provincial Chamber of Commerce and Industry, Firms developed a tourism vision, strategy, policy, and action plan and vetted the draft documents with a 20-member tourism working group representing both the public and private sectors. The policy focuses on attracting domestic tourists in the short term and foreign tourists in the long term. Strategic thrust areas include infrastructure improvement, workforce development, institutional and regulatory

reform, quality assurance, marketing and image-building, and law-and-order improvements.

- *Capacity building support.* Firms supported the Khyber Pakhtunkhwa Chamber of Commerce and Industry in developing a vision document and implementation plan to promote tourism growth, with participation by a broad range of stakeholders. Firms also worked with the Tourism Corporation of Khyber Pakhtunkhwa to develop a dynamic web portal, www.kptourism.com, to promote the province as a tourist-friendly destination, facilitate hotel and travel bookings, and publicize investment opportunities.
- *Public-private partnerships (PPPs).* Realizing the value of a PPP model — where government and the private sector share the risks and rewards of investment — provincial officials sought technical assistance from Firms to develop a PPP framework for tourism. The framework sets out rights, responsibilities, and cost-sharing options. According to the framework, the government is responsible for providing infrastructure, laws, and regulations, while private sector partners market tourism products and manage the tourism experience.

Subsequently, the government of Gilgit-Baltistan — Pakistan’s northernmost administrative territory — requested USAID assistance in developing a tourism policy, related legislation, and a PPP framework. To elicit input, Firms launched a robust consultative process involving more than 200 stakeholders in nine locations. The resulting policy aims to promote sustainable tourism by protecting, enhancing, and managing the rich natural and cultural resources of the area while reducing poverty and improving local living conditions.

Results. By December 2014, the governments of Khyber Pakhtunkhwa and Gilgit-Baltistan had accepted the tourism policy and laws developed by Firms in principle. In Khyber Pakhtunkhwa, a review board was created to move the policy forward toward approval and implementation.

Recommendations.

- Build the government’s capacity to create a business-friendly environment and to engage private sector stakeholders.
- Develop detailed plans for promoting specific types of tourism.
- Organize investment promotion and tourism marketing events.
- Support the establishment or expansion of tourism and hospitality training institutions and link them with international counterparts.
- Support establishment of an effective regulatory regime.

Urban Planning

Situation. With nearly 10 million people, Lahore — the capital of Punjab province — is a major economic hub and the cultural heart of Pakistan, with a rich history, fine architecture from a variety of periods, and a vibrant contemporary intellectual life. However, the city is straining under the burden of its huge population and dilapidated infrastructure. Nearly half the population lives in informal settlements with limited

access to potable water, sanitation, and public transport. Jurisdictions overlap, and city planning is ad hoc and uncoordinated.

Solutions. In 2012, through Firms, USAID held a series of consultations with stakeholders from government, business, academia, and civil society to discuss the city's future physical and economic development needs. Firms awarded a grant to the Center for Public Policy and Governance at Forman Christian College to collaborate on developing Vision 2035, a research-based framework to guide integrated and comprehensive planning for Lahore's future.

The team formed a core working group, reviewed existing research, and prepared a series of position papers on governance and management, transportation planning, water and waste management, real estate markets, and trade. In the next phase, stakeholders provided feedback on these documents to inform development of the overall Vision 2035 framework.

Results. By December 2014, the vision document was being developed in collaboration with the Urban Unit of the Punjab provincial government.

Recommendations.

- Assist the Urban Unit in advocating with the Punjab government to have the vision document adopted by all urban sector-related institutions in the province.
- Work with the Urban Unit, municipal authorities, and local governments to restructure the regulatory framework as needed to implement the vision.
- Support the provincial and local governments in designing institutional and service delivery improvement plans.
- Develop a framework for engaging the private sector in delivering urban services.

STRENGTHENING THE FOUNDATIONS

An important element of Firms' work to improve the business enabling environment was providing technical assistance to strengthen the country's premier business support institutions. Firms worked with two major federal institutions and numerous organizations in Khyber Pakhtunkhwa province to improve internal governance, build management capacity, and align strategies and services with the needs of the market.

Support for Federal Institutions

Small and Medium Enterprise Development Authority. The federal institution with the greatest potential to accelerate the pace of job creation and sales growth in Pakistan's private sector is SMEDA. Created in 1999, SMEDA initially achieved significant results, but the organization lost touch with the needs of the small business sector over time. At the request of the Ministry of Industries, Firms undertook a review of SMEDA's mission, mandate, and service menu, with the goal of improving service delivery to SMEs based on demand.

Guided by an advisory committee of government and industry leaders, Firms began by reviewing related policies and regulations, including the SMEDA Ordinance 2002, the Small and Medium Enterprise (SME) Policy 2007, and the SME Bill 2009. The review revealed design flaws, such as the absence of a common definition of SMEs. With limited financial autonomy, SMEDA was serving in an advisory role, with limited implementation powers. To clarify SMEDA's role and invest it with greater authority, Firms worked with counterparts to draft the SMEDA Amendment Ordinance and the SME Development Act.

To better match SMEDA's services with market demand, Firms analyzed the organization's service portfolio and service delivery mechanisms. A series of one-on-one interviews and focus group discussions with small business owners and managers informed an analysis of SME market needs. Based on the results, Firms developed a new service strategy and menu and recommended organizational changes to enable SMEDA to deliver highly practical services to SMEs, coordinate national SME policy, and simplify the business environment.

By the end of the project, SMEDA had adopted all the recommendations proposed by Firms and included them in its five-year business plan 2013-2018, with the exception of recommendations outside its purview, such as reform of the overall regulatory framework. Following are recommendations for advancing work begun under Firms.

- Assist the Ministry of Industries with formulation of a new SME Policy.
- Assist with the review and reform of all regulatory instruments, including the SMEDA Ordinance, to eliminate defects.
- Build SMEDA's capacity to implement the project's recommendations for organizational improvement.
- Invest SMEDA with the necessary financial and administrative autonomy to provide demand-responsive services.

Board of Investment. The federal Board of Investment is charged with creating an investment-friendly environment and strengthening links between the public and private sectors, with the goal of attracting foreign and domestic investment. However, the board has faced internal and external challenges in achieving its mandate. Factors beyond the board's control include a fragile law and order situation that discourages investment and a persistent energy crisis that reduces industrial productivity. Internally, the board faced capacity and governance challenges. For example, the organization's board of directors did not adequately represent the private sector, did not meet as frequently as stipulated by its governing ordinance, and was chaired by a political appointee rather than a business management professional. The board had no work plan and very infrequent interaction with the business clients it was created to support.

Through Firms, USAID provided technical assistance to help the board identify key challenges and develop a detailed implementation plan and time frame for overcoming them. Firms also worked with the board identify its primary client base and develop indicators for measuring its performance, particularly in meeting foreign direct investment targets set out in the related 2012 national draft strategy.

After reviewing the board's organizational structure, Firms proposed a roadmap to enhance its capabilities, streamline business processes, and review previously formulated investment policies. The plan included changes to the board's policy, legal, and regulatory framework, retooled business processes, recommendations on internal restructuring, and creation of a management information system to track capital investment projects and register potential investors, among other functions.

After the government formally approved USAID's recommendations, the board requested a second phase of technical assistance. Options were under discussion at the end of the Firms project. Following are recommendations for advancing work begun under Firms.

- Develop a roadmap for implementing the proposed restructuring of the board and provide experts to assist with the restructuring.
- Support preparation and presentation of a new investment policy and strategy by the board.

Support for Provincial Institutions

Pakistan's northwest was a major focus of Firms assistance throughout the contract period. Rapid progress was achieved in partnership with the Khyber Pakhtunkhwa provincial government, which undertook a wide-ranging and progressive reform program. A summary of Firms' work with its many provincial partners appears below. For a more detailed description of tourism activities, please see pages 32-33.

- In early 2010, Firms provided technical and institutional support to the Provincial Relief, Rehabilitation, and Settlement Authority, a newly created agency charged with coordinating the recovery from conflict and flooding. Firms helped to develop a project-tracking database and worked to build the organization's policymaking and implementation capacity.

- Based on consensus reached by USAID, the U. S. Embassy, and the governments of Khyber Pakhtunkhwa and the adjoining Federally Administered Tribal Areas (FATA), Firms developed a comprehensive proposal for a joint Investment Promotion Council to spur economic growth in the two neglected and politically troubled regions. The key feature of the proposal was bringing the public and private sectors together to identify and pursue investment opportunities. After consultations, and at the request of government and private sector stakeholders, Firms agreed to build the capacity of the Khyber Pakhtunkhwa Board of Investment and Trade to carry out this work rather than creating a new organization.
- Firms worked with the provincial Planning and Development Department to establish a change management unit to support the government's ambitious reform agenda and to guide internal restructuring. Firms identified five broad themes for institutional reform: departmental governance, economic growth, PPPs, institutional development of the Bureau of Statistics, and district-level planning. Firms also provided technical assistance to implement financial reform, and to engage the private sector in providing health services. Firms also helped to develop a monitoring and evaluation framework for the department.
- Khyber Pakhtunkhwa has tremendous tourism assets but was unable to capitalize on them due to limited investment and low capacity. Firms worked with the provincial Tourism Department, Chamber of Commerce and Industry, and Tourism Corporation to develop a tourism vision, strategy, policy, and action plan, as well as a state-of-the-art website for tourism promotion.
- To promote investment in the province, Firms worked with provincial officials to develop a PPP framework for sharing share investment risks and rewards. Originally developed for tourism, the PPP framework was subsequently broadened to encompass other areas, guided by the provincial Planning and Development Department. In 2014, the provincial government enacted a PPP Law that aligns with the PPP framework developed with Firms assistance.
- The signing of the Afghanistan-Pakistan Transit Trade Agreement in 2010 created new opportunities for Khyber Pakhtunkhwa to develop a competitive advantage in trade with Afghanistan. Through Firms, USAID proposed creation of the Khyber Pakhtunkhwa Investment Promotion Council to bring a regional focus to investment opportunities in the province, FATA, and neighboring Afghanistan and Central Asia. The draft proposal was submitted to USAID and is under review.
- At the government's request, Firms worked with the provincial Board of Investment and Trade to improve its service strategy, build a strong management structure, and identify investment areas. The project also provided technical assistance to develop a legal department and create standard operating procedures, human resources rules, and an information management system.
- To meet the challenges of a rapidly growing population, urban sprawl, rising demand for services, and distortions in the real estate market, the provincial government requested support for drafting a rental law, condominium law, and land use rules and regulations based on best practices. Firms provided technical assistance in drafting the three laws in close coordination with the provincial Urban Policy Unit.

Results. Firms provided much-needed support to the newly elected provincial government to drive reform, manage change, and meet improvement targets set out in

the Midterm Development Framework (MTDF). By the end of the project, the provincial government had accepted the policy and regulatory reforms proposed for the agriculture markets, livestock, minerals, and tourism sectors. The project's institutional strengthening proposals were approved by the Planning and Development Department, and implementation was underway.

Recommendations.

- Support the rollout of reforms in the agriculture, livestock, minerals, and tourism sectors.
- Provide additional assistance to restructure and strengthen the Planning and Development Department.
- Develop a framework and model for engaging the private sector in health service delivery.

Stabilization and Recovery

RESTORING LOCAL LIFELINES

This section summarizes Firms' work to restore infrastructure and livelihoods in the Swat valley of Khyber Pakhtunkhwa province and in South Waziristan, one of Pakistan's seven Federally Administered Tribal Areas.

Swat Valley

In the 1970s and 1980s, Pakistan's Swat valley — affectionately known as the Switzerland of Pakistan — attracted half a million tourists per year. Every summer, caravans of cars from the heat-stunned plains carried whole families up narrow, twisting roads through the pine forest, the air growing cooler at each hairpin turn, to enjoy Swat's terraced hillsides, rushing rivers, and delightful small hotels.

Ten years on, much had changed. Militancy was on the rise, tourists had dwindled to a trickle, and Pakistanis looking for a mountain getaway now turned to Gilgit and Hunza farther north, or to the easily accessible "hill stations" of Murree and Nathiagali. By 2006, Swat's tourism revenues had fallen from an estimated \$70 million annually in the 1980s to half that level. By that time, Taliban militants were openly terrorizing people in the once calm and majestic valley. Businesses closed and residents fled as Pakistan's military moved in to clear out the insurgents in early 2009.

To restore livelihoods and get tourism back on track, the U.S. and Khyber Pakhtunkhwa governments developed a program to reconstruct 280 damaged hotels and restart 31 fish farms that had kept local rivers stocked with Swat's famed fresh trout. Implemented by Firms, the Malakand Small and Medium Enterprise Recovery Assistance Program was just gaining traction in late summer 2010 when monsoon floods struck the region.

Firms focused on reconstructing moderately damaged properties first and providing working capital and in-kind assistance to hotel owners, fish farmers, and other entrepreneurs who could get their businesses up and running quickly. Firms provided hospitality and management training to hoteliers, and technical and business training to fish farmers. A media campaign declaring that Swat was clean, safe, accessible, and ready for the 2011 tourist season was an important companion to reconstruction.



Imported eggs improved trout production and quality for fish farmers in Swat.

The dual program of reconstruction and tourism promotion followed the example of Kaghan, a similar tourist destination that rebounded from a devastating earthquake in 2005.

Nearly 150 partner hotels in Swat were able to reopen in 2011, leading to a sales increase of \$3.3 million and the creation of 1,911 new jobs. In 2013, 22 partner fish farms created 142 new jobs and increased sales revenues by \$400,000. Overall, Firms mobilized private investments of \$1.9 million from hotel partners and \$350,000 from fish farming partners.

Provincial Relief, Rehabilitation, and Settlement Authority

Besides washing away crops, livestock, hotels, and roads — causing capital losses seven times higher than those attributed to the conflict with the Taliban — the flood disaster challenged USAID and other donors to reprogram limited funds strategically for maximum impact. To coordinate the recovery effort, and to use incoming funds to support a transition from short-term emergency assistance to long-term development solutions, the provincial government created the Provincial Relief, Rehabilitation, and Settlement Authority (PaRRSA) to provide a one-window facilitation point for government, donor, and partner assistance.

Firms provided intermittent assistance to PaRRSA from 2010 to 2014 to build its capacity to develop economic growth strategies, policies, and plans. Firms also supported communications and helped to create a web-based system to plan, track, and monitor the progress of recovery and development schemes in Malakand district. By September 2014, the Progress Review Management System database was fully functional, enabling PaRRSA to track progress and prepare reports for donors and the PaRRSA's steering committee.

South Waziristan Agency

Occupying a 10,000-square-mile strip between Pakistan and Afghanistan, the Federally Administered Tribal Areas comprise a semi-autonomous region that is nominally part of Pakistan, but its 10 million people are governed under special laws that have historically kept them out of the political and economic mainstream.

Starting in 2008, in response to a growing Taliban presence and influence, Pakistan's military began conducting operations in South Waziristan. The conflict destroyed roads and other infrastructure and displaced up to 500,000 people.

Through various programs, USAID has promoted development in FATA and supported construction or repair of roads, electricity infrastructure, schools, and health facilities. Through Firms, USAID commissioned a study to identify and strategize activities that would leverage USAID's investments to help strengthen the local economy and provide employment opportunities in South Waziristan. The study recommended a series of policy, institutional, and value chain interventions to develop the region, as summarized below.

Policy and institutional development:

- Regulatory reform needs assessment and recommendations
- Capacity building for the FATA Secretariat, the FATA Development Authority, and the regional line departments
- Development of a grants program to restore the livelihoods of displaced families
- Creation of an integrated agriculture supply and advisory center

Workforce development:

- Institution-based technical training
- Financial assistance for general education

Value chain development:

- Apples
- Pine nuts
- Livestock



SNAPSHOT

Swat Breathes Anew

Pakistani families return to “Switzerland” for a summer break



Everyone wants a hot cup of tea in the picturesque hotels of hilly, chilly Swat.

With USAID assistance, hotels and fish farms rebound from conflict and floods

Telling Our Story
U.S. Agency for International Development
Washington, DC 20523-1000
<http://stories.usaid.gov>

After years of dormancy, hotels in Swat valley finally reopened to receive visitors in areas that previously faced violent conflict and unforgiving monsoon floods. “The floods washed away everything,” recounted Ameer Noshad, owner of the Abshar and Muslim Palace hotels. “Our family was left without shelter, let alone a way to earn a living.”

With USAID assistance, 239 hotels in Swat — Pakistan’s “Switzerland” — received \$2.7 million in cash grants and in-kind assistance such as construction materials, furniture, and other supplies. Beneficiaries also received training in hotel management. A nationwide media campaign helped convince tourists that Swat was safe, secure, and ready to return to normal. Nearly 150 partner hotels reopened in 2011, earning more than \$650,000 in sales. “Both of our hotels are once again catering to tourists, and I have been able to put bread on the table for my family after several difficult years,” said Mr. Noshad.

Meanwhile, USAID assistance put 22 trout farmers in the valley back on their feet through cash grants, in-kind assistance, and technical support that vastly improved the quality of fish from their farms. “My business is flourishing, and after several desolate years, I have been able to make a healthy profit this season,” said Rashid Khan, owner of Madyan Trout Fish Farm.

Usman Ali, the owner of Trout Park Fish Farm in Madyan, began importing fish eggs from the United States and selling them to other local farmers. “I am one hundred percent satisfied,” said Mr. Ali. “Today, my business has a name in Swat. I have a name in Swat.”

EXPANDING DIGITAL SERVICES IN REMOTE AREAS

One challenge to increasing the productivity of small farmers in remote areas is reaching them with key technical and market information on time and affordably. Digital technology has emerged as a powerful solution. Given the prevalence of wireless services in Pakistan — more than 75 percent people have access to a cellular phone — USAID saw an opportunity to use mobile phones to disseminate information to farmers in Swat, where people were still recovering from damage caused by a prolonged insurgency that ended in 2009 and severe monsoon flooding in 2010.

Mobile Information Services

In partnership with the Khyber Pakhtunkhwa government and cellular service provider Telenor, Firms launched a pilot in 2013 to provide agricultural technical and advisory services to registered beneficiaries via SMS. The pilot involved four initiatives: (i) providing crop-related information via SMS, (ii) an interactive voice response feature, (iii) establishment of technology-enabled trading information centers, and (iv) analysis and promotion of mobile banking.

On January 6, 2014, the first SMS messages went out to 888 peach growers, 64 potato farmers, and 22 fish hatchery owners in Swat. Subsequently, farmers received text messages on agricultural best practices and weather forecasts. The interactive voice response feature enabled users to access recorded messages of their choice around the clock — a useful service in a region with low literacy rates.

Just three months later, farmers were already reporting good results. Among the 640 users surveyed, nearly 90 percent had received the SMS messages, and more than 90 percent of those said the texts were well-timed and helpful. Three-quarters of respondents said they had adopted at least one recommended practice, and more than 80 percent reported sharing information with other farmers who were not subscribed to the service.

Mobile Financial Solutions

Banking is another challenge for farmers in remote areas, where most have no access to formal financial services. Besides taking time out from their daily responsibilities to go to the bank, farmers may have to travel long distances and may return carrying large sums of cash, at considerable personal risk.

To address this and other issues, Firms conducted a gap analysis of the mobile money sector in Pakistan and provided recommendations on how to help the sector grow. The study summarized end user requirements, strategized how commercial players could develop market-driven products, and suggested ways for regulators to create policies that would be conducive to growth. The study was pivotal in providing key insights on how to promote mobile money growth — specifically, how to move users from over-the-counter services to using mobile wallets.



SNAPSHOT

A Wireless Lifeline for Farmers

Mobile technology helps close the information gap



A “connected” farmer shares information sent by SMS with a friend.

Technical, weather, and financial information delivered via SMS keeps USAID partner farmers up to date

Most Pakistanis, regardless of economic status, have a mobile phone, and farmers are no exception. Many farmers live in remote communities that have extremely poor infrastructure, almost no public transportation, and limited access to basic financial services. For these communities, mobile phones are a lifeline.

Recognizing this, USAID partnered with the provincial government in Khyber Pakhtunkhwa and cellular operator Telenor to create tailored mobile solutions to get information to peach growers, potato farmers, and fish hatchery owners in Swat valley. Around 1,500 people participated in the pilot.

Text and voice service provided a wide range of information, from weather forecasts to market price data and technical advice. Analyzing farmers’ calls to the interactive service helped information providers better understand farmers’ needs and challenges.

More than 90 percent of farmers who received the texts appreciated their relevance and timeliness. They also had suggestions for making the service better. “You should update us on whether it will rain, or when to spray and irrigate. For example, if it is to rain tomorrow, I will not spray today, but spray the day after the rain. This will help me conserve my resources and save money,” said Shahi Rome, a peach farmer from Swat.

The hope is that the success of this pilot will encourage other private sector players to enter the market. In this politically and environmentally sensitive province, a well-informed and more prosperous farming community

Telling Our Story

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Building on the success of the mobile information pilot, Firms introduced farmers in Swat to Telenor’s “Easy Paisa,” Pakistan’s first branchless banking solution. The service enables people to deposit and withdraw funds from their bank accounts, transfer money in different ways, and purchase value-added products such as crop insurance. Through more than 34,000 retail locations throughout Pakistan, the service is being accessed even by users without bank accounts.

Besides serving the farmers of Swat, the pilot tested the commercial viability of launching similar services elsewhere in Pakistan, with the potential of improving agricultural productivity, connecting more farmers with better market opportunities, and expanding the reach of financial services to remote rural areas, as demonstrated by the example of SE Trading (see page 19).

Trading Information Centers

To support the mobile information initiative, Firms established a central trading information center in Mingora and five satellite centers in Barikot, Matta, Kabal, and Khawazakhela. Besides having live SMS connections with all users, the Mingora center displayed real-time market information and, through onsite advisors and mobile money agents, provided walk-in clients with crop advice and financial services such as money transfers, bill payments, and savings deposits.

LESSONS FROM FIRMS IMPLEMENTATION

LOOKING AHEAD

Firms worked with a wide range of government and private sector partners over the five-year contract implementation period. This section summarizes overall lessons and recommendations from Firms' experience in value chain development, business enabling environment support, institutional development, and project management. For recommendations to guide future work with specific value chains or specific government partners, please see the related chapters.

Value Chain Development

- Expand work across the sectors and incorporate other horizontally or vertically placed subsectors in the development work.
- Improve the capacity of business development service providers to support change management.
- Build the capacity of local machinery manufacturers and after-sales service providers.
- Improve Pakistan's overall image as a quality produce grower, goods manufacturer, and service provider.
- Improve SME access to finance through debt, equity, and venture capital funding options. USAID's Development Credit Authority could place a key role, coupled with capacity building effort for both demand- and supply-side players to build trust in the financial market.
- Increase women's participation in value chains by developing appropriate interventions and encouraging entrepreneurship.
- Develop the workforce by providing meaningful training based on industry demand.
- Showcase the successes of innovative SMEs to provide an example for others to follow.
- Use digital development to transform businesses by providing real-time data and timely financial information and services

As noted in the Firms exit strategy report for value chains, firm-level interventions often serve as pilot activities that generate experiential knowledge that can in turn be applied more broadly across an industry. Beyond the measurable and attributable impact of project activities on participating firms, the knowledge gained by Firms' interventions can be applied to new programming. On page 47 is a summary of opportunities to leverage or scale up value chain interventions implemented by Firms over the five-year contract period.

Medium-Term Assets		Long-Term Assets	
New Products, Services, or Processes	New Markets, Buyers, or Channels	Scalable Business Models	Replicable Interventions
Horticulture			
<ul style="list-style-type: none"> Refine mango harvest and processing protocols for long-haul sea shipments Refine the solar tunnel dryer system for fresh dates Introduce on-farm export processing lines for peaches 	<ul style="list-style-type: none"> Link mango, date, peach, and other fruit/vegetable producers with processors via contract farming 	<ul style="list-style-type: none"> Develop additional on-farm mango export processing lines Develop additional on-farm solar tunnel drying systems for dates Develop additional public-private partnerships to provide extension services to farmers 	<ul style="list-style-type: none"> Introduce on-farm export processing lines for other fresh products Apply Khairpur on-farm date sector interventions to D.I. Khan date cluster Apply Swat potato contract farming model to other horticulture sectors
Agroprocessing			
<ul style="list-style-type: none"> Identify specific dried mango and processed date products Refine mango drying approach 	<ul style="list-style-type: none"> Link mango, date, peach, and other fruit/vegetable processors with producers via contract farming Identify specific export markets and domestic buyers for dried mangoes, processed dates, Swat peach pulp, and other fruit and vegetable pulp 	<ul style="list-style-type: none"> Upgrade additional fruit and vegetable pulping units 	<ul style="list-style-type: none"> Apply Swat peach sector interventions to peach cluster near Satpara Dam in Gilgit-Baltistan
Manufacturing			
<ul style="list-style-type: none"> Look more closely at hosiery products Test approach of hiring women operators on full-time work arrangements Identify key agricultural implements for southern African markets Focus on specific value-added marble and granite products 	<ul style="list-style-type: none"> Increase knit garment sector focus on European markets to exploit tariff reduction schemes such as the Generalized System of Preferences (GSP) and GSP+ Focus agricultural implements marketing on southern African countries Develop agricultural implements supplier contracts with leasing and tractor companies Identify specific export markets and domestic buyers for marble and granite 	<ul style="list-style-type: none"> Upgrade additional knit garment manufacturing units 	<ul style="list-style-type: none"> Implement garment sector interventions in other clusters in Lahore, Faisalabad, and Sialkot. Implement technology upgrades and lean manufacturing practices in additional clusters of Agriculture Implements sector Upgrade marble sector technology

Source: Exit Strategy for Value Chain Development (VCD) Programs, USAID Firms, July 2014, pp. 53-55

Business Enabling Environment Support

- Competitive markets ensure that supply-side issues are addressed if demand exists. An analysis of market dynamics should be undertaken to identify distortions before supply-side issues are addressed.
- Successful policy reform depends on consistent, smooth, and meaningful interaction with the government. One way to achieve this is by incentivizing reform. For example, the Punjab government agreed to fast-track agriculture markets reform in exchange for support in setting up three modern markets.
- Creating sustainable arrangements to carry on project work should be a formal part of project design and a measure of project success. For example, the Pakistan Agriculture Coalition in Punjab and Sindh is promoting agriculture and livestock sector reforms recommended by Firms as a key part of its own advocacy strategy.
- Given limited capacity in some government institutions and frequent personnel changes — for example, in the Punjab Agriculture Department during the Firms implementation period — it is advisable to transfer skills and institutional knowledge to autonomous public sector organizations or private sector trade associations whenever possible.
- Given the critical importance of stakeholder engagement and consultation, a share of program resources should be dedicated to supporting forums, meetings, and seminars that bring actors together and create a space for existing and emerging sector champions to exchange ideas and develop platforms for collective action
- Policy and regulatory reform efforts benefit greatly from donor collaboration. For example, Firms worked successfully with the Food and Agriculture Organization on agriculture and livestock policy in Khyber Pakhtunkhwa, and with the International Growth Center to include Firms' policy recommendations in its economic growth report for Khyber Pakhtunkhwa.
- Analyzing policy and regulatory frameworks is a useful exercise even if the reform process is slow or politically difficult. Firms prepared 79 high-quality reports that should be made freely available to academics, researchers, and future policymakers to spread awareness of the need for economic reform and share knowledge of how to undertake reform.

Institutional Development

- Given the frequency of leadership changes in government organizations, it is important to secure buy-in for project activities from key long-term staff of a counterpart organization, as well as its chief. For example, key officials in the Khyber Pakhtunkhwa government participated energetically in project activities and provided strong support.
- To sustain project-supported reform, secure commitments from counterparts are needed. For example, the Khyber Pakhtunkhwa government agreed to retain the change management experts provided by Firms before assistance began.
- Much more can be done to nurture reform champions in government — for example, by creating a space for reformers to exchange ideas and by supporting overseas exposure trips to enable counterparts to see reform in action.
- Most institutional partners expressed a need for computers and other IT support, offering an opportunity to incentivize institutional reform.

Project Management

- Firms worked in a dozen sectors and had a broad portfolio of interventions. While frequent changes to the contract's scope of work resulted in a mix of value chains, start/stop dynamics, and a reduced emphasis on gender initiatives, this broader approach spread the risk of failure and created knowledge assets in many industries.
- Government participation was vital to Firms' success on technical and policy initiatives. When government actions prompted early closure of the Swat and Islamabad offices and denied visas to international experts supporting project activities, Firms adapted and remained results-focused.
- The quality of long- and short-term staff was essential to Firms' success. The project paid close attention to hiring staff with the regional and sector-level experience to support value chain interventions. Policy advisors had prior experience working in government and understood how to navigate the bureaucracy and engage with government counterparts.
- Given Firms' breadth of activities and geographical spread, its operational platform was large, with one main office in Lahore and three regional offices. An increasing ratio of technical to administrative staff, rising to 2:1 during the final year, was effective in providing support and flexibility. Chemonics' project management systems, including home-office support, provided additional strength for implementation in Pakistan's complex environment.

ANNEX

LIST OF ADDITIONAL MULTIMEDIA MATERIALS

All materials are provided on the accompanying DVD or linked below.

Annual Reports

2010
2011
2012
2013
2014

Photos

Agriculture
Agriculture Markets
Fisheries
Fruits and Vegetables
Islamapur Weaving
Knitted Garments
Livestock
Marble and Granite
Mobile Solutions

Videos

Economic Growth Television Commercial
Mobile Solutions Documentary
Pakistani Dates Documentary
Swat Fisheries Documentary
[Growing Gold on Trees](#) (Mango Documentary)

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