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BRIEFING PAPER

Export Development Fund

A Critical Analysis and Roadmap for Restructuring

by Sara Javed

Export Development Fund (EDF) was formally established through an Act namely 'Export Development Fund Act 1999' with the purpose to strengthen and develop infrastructure for promotion of exports through Export Development Surcharge (EDS). In 2005 an amendment came, which provides that Federal Government is required to collect 0.25 per cent of export receipts and transfer to EDF maintained by Ministry of Commerce in the following year.

During 2012-13, the Finance Division released an amount of Rs. 452.619 million, equivalent to only 30 per cent of EDS collected. The total short provision since amendment in the Act in 2005 i.e., from 2006-07 to 2013-14, has accumulated to approximately 19 billion rupees.

The key problems include short provisioning of funds, lack of selection criteria, and absence of monitoring and evaluation system. These prevailing deficiencies allow misallocation and misappropriation of funds towards the projects which fail to boost exports.

This paper recommends that the ownership of the fund administration should be vested with the private sector to make them accountable for the judicious use of their money by arguing for an amendment in the Act. The paper proposes creation of a new non-profit company and outlines its mandate and objectives.

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This briefing paper is developed by Sara Javed, Research Analyst, Policy Research Institute of Market Economy (PRIME) as part of advocacy and capacity building project for business associations supported by Center for International Private Enterprise (CIPE).

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Contents

1. Introduction

Exports are widely believed to play a crucial role in the development process. Exports lead to an improvement in economic efficiency by increasing the degree of competition. For the same reason, number of initiatives have been undertake to achieve export-led growth in Pakistan.

In 1999, Export Development Fund Act (EDF) was introduced to strengthen and develop infrastructure for promotion of exports.

A number of projects have been approved for enhancement of various industries under EDF. Taking for instance the example of leather industry, for which an amount of Rs. 881.917 million has been provided from 1992-93 to March 5, 2013 from EDF. However, the performance of the industry exhibits a mix trend as exports of leather garments during 2008-09 were $392.5 million, which increased to $404.3 million in 2010-11, showing an increase of 3 per cent. Then, in 2011-12 the leather garment export came down to $341.0 million dollars indicating a decline of 15.6 per cent in terms of value and 13 per cent in terms of quantity.

Despite the recurrent performance of industries, total exports of Pakistan are suspended around $18-20 billion for last few years. There are no procedures to assess the significance of funds such as EDF and absence of studies on the said topic is a challenge for measuring the overall impact on exports performance.

The current study is the first attempt to provide the structure of EDF fund, its purpose, the process by which the funds are allocated, issues and challenges faced by beneficiaries and the recommendation to make the fund effective.

2. Establishment of EDF

In 1999, the Federal Cabinet decided that an Export Development Surcharge (EDS) equivalent to 0.25% of the export value of all exports may be levied and that the proceeds of the Surcharge should be transferred by the Government to the Export Development Fund (EDF) for distribution amongst the various export associations for export development.

In 2005, The Export Development Fund (amendment) came , which provides that the entire receipts of Export Development Surcharge (EDS) collected by the Federal Government in the preceding year shall be transferred to Export Development Fund (EDF) in the following year.

3. Purpose/Objectives

The purpose of EDF as defined in EDF Act, 1999, *"An act to provide for the establishment of export development fund whereas, it is expedient to establish an export development fund to strengthen and develop infrastructure for promotion of exports and to provide for matters connected therewith or incidental thereto;"*

Objectives as per section 4 of the EDF Act are:

- Establishment of training institutes for export oriented trading and industrial sectors
- Subsidizing of delegations and sale missions going abroad
- Establishment of offices abroad of the Federation of Pakistan Chambers of Commerce and Industry and Exporters Association
- Subsidising participation in exhibitions abroad including single country fairs
- Publicity
- Research and development activities of Exporters Association, Federation of Pakistan Chambers of Commerce and Industry
- Market and product development by trade associations, Federation of Pakistan Chamber of Commerce and Industry, Chambers of Commerce and Industry and individual exporters
- Engagement of consultants
- Strengthening of Pakistan Trade Offices abroad
- Establishment and maintenance of display centres in and outside Pakistan
- Support to export services; and
- Any other activity which is relevant for promotion of exports and approved by the Board.

4. Board of Administrators of EDF

A Board of Administrators (the Board) was set up at the time of establishment of EDF, with the purpose of framing rules, sanctioning budgets and approval of projects. Initially, the Board constituted 11 members; 9 from government and 2 from private sector. However, the composition of the Board has evolved over the years and incorporated thirty members (as of 62nd meeting of the Board), thirteen government representatives and seventeen representatives from chambers and associations.[1] Even though, the representation

> Even though, the representation from private sector has increased over the year, the decision making for project selection and budget allocation largely rest with the government.

[1] At the time of writing this report, the Board is undergoing restructuring, however the notification was not accessible.

from private sector has increased over the year, the decision making for project selection and budget allocation largely rest with the government[2].

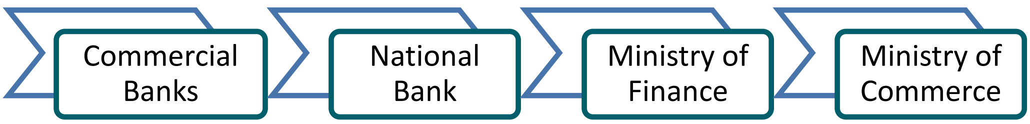
Detail composition of Board is given at Annexure I.

5. Short Provisioning of EDF

As per Export Development Fund (amendment) Act, 2005, Federal Government is required to collect 0.25 per cent of export receipts and transfer to EDF maintained by MoC in the following year.

However, one of the issues which the Ministry of Commerce frequently reported to face is that the Finance Division does not transfer the whole receipts to EDS but provides only a portion thereof to EDF through annual budgetary grant.

Flow of funds under EDF follows the process depicted in the flow chart. Commercial banks collect 0.25 per cent from export proceeds in the name of EDS, which is then transfer to the National Bank. National Bank credits the entire receipts in MoF account. And, MoF is required to transfer the receipts to MoC in following year.

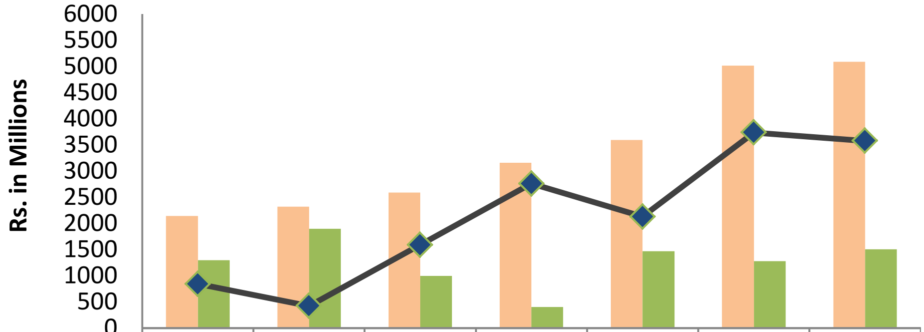


The receipts of EDS during 2011-12 were Rs. 5,807.045 million. Against the said receipts, the Finance Division has allocated funds for 2012-13 Rs. 1,508.731 million only. Thus, there is short provision of Rs.3, 578.314 million. The total short provision since amendment in the Act in 2005 i.e., from 2006-07 to 2012-13, has accumulated to approximately Rs. 19 billion.

The total short provision since amendment in the Act in 2005 i.e., from 2006-07 to 2012-13, has accumulated to approximately Rs. 19 billion.

[2] This view is shared by representatives from business in background discussions held during this research.

Figure 1: Disbursement of funds



	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Receipts of EDS	2142.723	2320.338	2589.614	3160.057	3596.23	5018.131	5087.045
Funds Released by Finance Division	1300	1896	1000	400	1468.547	1279.81	1508.731
Short Provision by Finance	842.123	424.338	1589.614	2760.057	2127.683	3738.321	3578.314

Source: Ministry of Commerce

The figure 1 depicts the short provisioning of funds by the Finance Division over last seven years. In 2008-09, only 12 per cent of the EDS receipt was released by finance division. Onwards, the disbursement of funds remains less than 40 per cent (in each fiscal year) of the receipt collected through EDS.

During 2012-13, the Finance Division released an amount of Rs. 452.619 million, equivalent to 30 per cent of total budget.

Table 1: Cash Inflow and outflow during 2012-13 (As on 12-03-2013)[3]

		Rs. In Millions
1.	**Funds Available**	
	Unallocated balance (i.e. the amount currently available for release to the approved/new projects)	114.695
2	**Requirement of Funds**	
a.	Pending Liabilities of EDF (i.e. the approved projects to which the whole or remaining sanctioned funds are yet to be released by MoC)	3,642.614
b.	Fresh proposals/project included in the Agenda of the current meeting of the EDF Board	279.460
	Total (A)	**3,922.074**
3	**Projected Cash-flow for 2012-13**	
a.	Opening balance as on 12-03-2013	114.695
b.	Funds likely to be provided by the Finance Division during the remaining period of the current financial year 2012-13	1,056.112
c.	Total expected availability (a+b)	1,170.870
d.	Projected out flow – ('A' above)	3,922.252
e.	**Shortfall**	**(2,751.447)**

During 2012-13, Finance Division allocated Rs. 327.202 million. Details of allocated funds are as follows:

Table 2: Allocation of EDF (2012-13) [4]

	Rs.in Millions
Funds allocated by Finance Division in Budget	1508.731
Funds released by Finance Division (up to 18-02-2013	452.619
Funds carried over from the previous year (2011-2012)	69.125
Funds diverted from the projects	13.208
Total availability of funds	534.952
Funds released to TDAP for disbursement to approved Projects	207.750
Balance Available	**327.202**

To resolve the issue of outstanding amount of Export Development Surcharge held up in Finance Division, Cabinet in January, 2013 approved that the total amount of EDS will be transferred to the Export Development Fund under MoC as contained in the Strategic Trade Policy Framework (STPF) 2012-15. The proposal was accepted but was not implemented and the attempts ended in vain and problem remains the same.

[3] Source: Ministry of Commerce
[4] Ibid

6. Issues

6.1. Misappropriation of Funds

There are numerous reported incidents which imply that the proposals are allegedly accepted without completing the necessary paperwork and legal requirements[5].There have been allegations that under many approved projects; the subsidy amount was given out to phony export companies, important political personalities, high government officials, and middlemen[6]

There are numerous reported incidents which imply that the proposals are allegedly accepted without completing the necessary paperwork and legal requirements[1].

6.2. Lack of Monitoring and Evaluation System

Lack of monitoring and evaluation system permits to seek grants year after year. Absence of the strict criteria to ensure the sustainability of projects leads to additional support for keeping the operations of the project under EDF.

For instance, a Research & Development Cell at Sargodha Chamber of Commerce & Industry was established in June 2012. For further improvements and enhancement in existing set up a proposed amount of Rs. 25.28 million was requested. And it was identified in the proposal that the Chamber will ask for operational expenses in future as well, since the project does not intend to generate any revenue. According to the proposal, *"It should be noted that the project cost includes operating costs of Rs.23.75 Million for next three years. The project does not intend to generate revenue, therefore, the Sargodha Chamber shall ask for operational expenses after three years again."*[7]

In 2010, a project of Rs. 23 million was accepted to establish a Monitoring Unit under MoC. While the team was appointed to run the unit, the project is still not operational due to financial constraints.

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[5] The Nation, 23rd January 2014, accessible at http://www.nation.com.pk/national/23-Jan-2014/scci-concerned-over-edf-spending

[6] Business Recorder, 23rd December 2013, accessible at http://tribune.com.pk/story/649380/export-subsidy-scandal-fia-likely-to-implicate-senior-ppp-leaders/

[7] Minutes of the Meeting, EDF Board

A framework for monitoring unit was proposed to incorporate tools such as guidelines for preparation of project proposals, quarterly reports, annual targets, progress report and project completion report.

An important step towards establishing the monitoring and evaluation system was taken by devising detailed forms in 62nd meeting of the Board of Administrators of EDF Fund held in March 2013.

6.3. Excessive Project Administration Cost

Many projects proposed and approved under EDF contribute very less in increasing the overall exports because funds are largely spend on administrative expenses. In many cases, as high as 80-90 per cent of the project budget goes to salaries and administrative costs. Taking for instance, establishment of Gem & Jewellery (diamond cut & polish) training institute, a project proposed in 62nd meeting of the board of administrator of EDF Fund held in 2013. The total budget of the project given is Rs. 27.292 million, of which Rs 21.792 million (i.e. 79.8% of the project total cost) are for administration.

In many cases, as high as 80-90 per cent of the project budget goes to salaries and administrative costs.

6.4. Dispersed Scope of EDF

The scope of EDF fund in terms fund allocation is very wide. In addition to focus on capacity building, infrastructure, institutional development and business development, the significant portion of fund goes in the name of subsidies. According to MoC, all the recurring expenditures and funding in case of legal obligation are also supported by EDF fund.

6.5. Non- tangible Projects

Under EDF, businesses largely propose projects such as exhibitions, marketing campaigns, establishment of trade offices and alike. These projects are important in providing capable workforce or facilitate export promotion activities. However, the impact of such projects is difficult to quantify because of non-tangibility of outputs.

According to MoC, all the recurring expenditures and funding in case of legal obligation are also supported by EDF fund.

6.6. Strategic Gap

Project propose under EDF are not in accordance with the broader objectives at the trade policy level. It is possible that the business community or exporters are unaware of the policy direction designed at the strategic level. Due to this strategic gap, many projects proposed to enhance export in industries contradict to overall trade direction.

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Taking for instance, to promote regional trade, STPF 2012-15 announced marketing development assistance for regional countries including China, Afghanistan, India and Iran. The objective is to undertake promotional initiatives including market research, support to non-traditional exports, support to marketing efforts of private sector and alike. Despite the announcement, not a single project is proposed by export industries to take advantage of this initiative.

6.7. Poor Quality of Project Proposals

Review of records of EDF Board meetings and our background discussions with business associations commonly point out that the project proposal submitted by business community significantly lack the quality, competitiveness and result orientation.

Impact of export development initiatives on Leather Industry:

A case study comparing Pakistan and India

Pakistan's manufacturing industry is heavily dominated by textile and leather industries. The leather industry is the second largest export-oriented industry in the manufacturing sector and third in the overall export of Pakistan.

Exports of Leather garments during 2008-09 were US$ 392.5 million which increased to US$ 404.3 million in 2010-11 showing an increase of 3.0%. In 2011-12 exports of Leather Garments came down to US$ 341.0 million. The decline in the export of leather garments for the year 2011-12 as compared to 2010-11 is 15.65% in terms of value and 13% in terms of quantity iii. Exports of leather Garments during July-January 2012-13 again increased by 5.6% from US$ 221.5 million to US$ 234.0 million during the corresponding period 2011-12.

To promote leather industry, total amount of Rs. 881.917 million has been released from 1992-1993 up to 05-03-2013 from Export development Fund. Moreover, in order to improve supply chain of leather sector exports, 25% financial cost for setting up of design centres and labs has been provided by the Ministry of Commerce. Installation of flaying machines in slaughter houses at district level, request of Sialkot Chamber of Industry for provision of common effluent treatment plant for its leather industry has been agreed to and is currently under process. During fiscal year 2011-12, Trade Development Authority of Pakistan (TDAP) organized Pakistan's participation in nine trade fairs and exhibitions of leather garments and its accessories. Two fairs were allocated to Pakistan Leather Garments Manufacturers and Exporters Association (PLGMEA) in year 2011-2012 and in 2012-13 as well. In these events, 50% subsidy was provided to the trade bodies towards space rent and construction of stalls[8].

Despite the initiatives and allocation of fund through EDF, Pakistan is losing its market share year after year, which is increasing the share of its competitors including India, Bangladesh and China.

Similar to Pakistan, the leather industry holds a prominent place in the Indian economy. India's leather exports touched US$ 3.84 billion in 2010-11, recording a cumulative annual growth rate (5 years) of about 5.87%. The export of leather and leather products for the period April-Nov 2011 touched US$ 3092.02 million as against the export of US$ 2398.32 million in the corresponding period last year, registering a positive growth of 28.92%. In rupee terms, the export touched `143613.68 million during April-Nov. 2011 as against the previous year's performance of ` 109655.40 million registering a positive growth of 30.97%.

To promote leather industry, few promotional activities include:

• Organizing two-day Reverse buyer-seller meets in important Leather Clusters of India by inviting potential overseas buyers of leather & leather products (Chennai, Delhi, Kanpur, Mumbai, Agra, Kolkata)

• Focus US Programme for Leather Garments and Leather Goods & Accessories - Organizing exclusive buyer-seller meets in USA during October 2011 and February 2012.

[8] Source: Business Recorder

• Focus programme for leather products in EUROPE - Facilitation of members participation in MIPEL Fair, Italy - September 2011 and March 2012 editions

• Two-Day Mega India Leather Show in Spain during March 2012.

The figure shows the trend in total export and leather export for last five year comparing Pakistan and India. Pakistan's leather export remains stagnant over the past years despite the indicative support provided by EDF. In contrast, India's total export increases along the increasing trend in its major commodity-leather.

7. Recommendations

7.1. The ownership of the fund administration should be vested with the private sector to make them accountable for the judicious use of their money. Unlike other taxes in which the government has the legitimate authority to spend on social development and public goods, the EDS is designed as a special purpose surcharge which should be spend with private sector consultation.

> The ownership of the fund administration should be vested with the private sector to make them accountable for the judicious use of their money.

7.2. An amendment in the Export Development Fund Act 1999 may be introduced under which:

7.2.1. The current Board of Administrators of EDF may be abolished.

7.2.2. A new non-profit company under Section 42 may be set-up with the exclusive mandate of export development in which the board of directors comprises of representatives from the private sector, government and academia whereas the managing director is drawn from the private sector on the basis of his professional expertise. (Mandate and objectives of the proposed company are shown at Annex II.)

7.3. The new company may introduce an open bid mechanism which will solicit proposals identifying priority areas and industries with respect to the directions announced in Strategic Trade Policy Framework 2012-15.

7.4. In the spirit of 2005 Amendment in EDF Act, ring fencing of the amount collected under EDS should be ensured by the Ministry of Finance so that it can be used exclusively for activities, mandated by the law.

In the spirit of 2005 Amendment in EDF Act, ring fencing of the amount collected under EDS should be ensured by the Ministry of Finance.

7.5. EDF Secretariat in Ministry of Commerce should publish a progress report including performance of on-going projects, their impact on exports, successful examples and lessons learned from unsuccessful projects.

Annexure I: Composition of Board

1	Minister of Commerce	Chairman
2	The Minister of State of Commerce	Member
3	Secretary, Ministry of Commerce	Vice-Chairman-I
4	The Chief Executive, Trade Development Authority of Pakistan	Vice-Chairman-II
5	A member of Majlis-e-Shoora (Parliament) to be nominated by the Ministry of Commerce	Member
6	Secretary, Ministry of Finance	Member
7	Secretary, Ministry of Industries and Production	Member
8	Secretary, Ministry of National Food Security & Research	Member
9	Secretary, Ministry of Textile Industry	Member
10	Secretary, Trade Development Authority of Pakistan	Member
11	The Additional Secretary-II, Ministry of Commerce	Member
12	A senior official of the State Bank of Pakistan nominated by the Governor State Bank of Pakistan	Member
13	President, Federation of Pakistan Chamber of Commerce and Industry	Member
14	President, Karachi Chamber of Commerce & Industry, Karachi	Member
15	President, Lahore Chamber of Commerce & Industry, Lahore	Member
16	President, Quetta Chamber of Commerce & Industry, Quetta	Member
17	President, KPK Chamber of Commerce & Industry, Peshawar	Member
18	President, Sialkot Chamber of Commerce & Industry, Sialkot	Member
19	Chairman, All Pakistan Textile Mills Association, Karachi	Member
20	Chairman, Pakistan Bed wear Exporters Association, Karachi	Member
21	Chairman, Towel Manufactures Association of Pakistan, Karachi	Member
22	Chairman, Pakistan Readymade Garments Manufacturers & Export Association, Lahore	Member
23	Chairman, Pakistan Hosiery Manufacturers Association, Karachi	Member
24	Chairman, Pakistan Leather Garments Manufacturers & Export Association, Karachi	Member
25	Chairman, Surgical Instrument Manufacturers Association of Pakistan, Sialkot	Member
26	Chairman, All Pakistan Fruit & Vegetable Exporters, Importers & Merchants Association, Karachi	Member
27	Chairman, Pakistan Sports Goods Manufacturers & Export Association, Sialkot	Member
28	Chairman, Pakistan Fisheries Exporters Association, Karachi	Members
29	Chairman, All Pakistan Trade Association, Lahore	Member
30	The Joint Secretary, MoC , dealing with EDF/Executive Director-EDF	Secretary

Annexure II: Mandate and Objectives of Proposed Company

Mandate and Objectives of Proposed Company

This paper proposes establishment of a new non-profit company under section 42 with the exclusive mandate of export development in which the board of directors comprises of representatives from the private sector, government and academia whereas the managing director is drawn from the private sector on the basis of his professional expertise.

The proposed company should have mandate to initiate reforms in the project management cycle to be supported by EDF. Some of these points are highlighted in the following lines.

1. **Improve selection criteria**
   - 1.1. Selection criteria and allocation of funds to make it more transparent and result oriented.
   - 1.2. The procedural requirement to sanction EDF should be simplified to make it efficient.
2. **Monitoring and Evaluation**
   - 2.1. All projects funded by EDF should be regularly monitored.
   - 2.2. Targets should be given in terms of time and value of the projects.
   - 2.3. Performance based evaluation of on-going EDF sanctioned projects should be conducted.
3. **Sustainability of Projects**
   - 3.1. A mechanism to ensure ownership of all projects should be identified, that is, relevant stakeholders should be given control and stake in operating the project.
   - 3.2. Any decision regarding allocation of EDF should examine the future demand and willingness to pay to ensure sustainability so that projects do not look for grants year after year.
4. **Business Environment Facilitation**
   - 4.1. Allocation of EDF should accord priority to business process re-engineering and policy related studies to facilitate business environment instead of traditional focus on infrastructure projects.
5. **Infrastructure Development**
   - 5.1. Funds should only be provided for setting up of testing and certification labs, schools for product development and improvement of exports, training of manpower and alike.

5.2. New technical and vocational training institutions should be established and existing ones should be revamped with newly developed technologies.
5.3. For meeting international standards, technical and training centres for upcoming sectors should be established such as jewellery making, precious stone cutting and polishing, designing of garments for mass production, readying fruits and vegetables, livestock and poultry for exports.

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Policy Research Institute of Market Economy

PRIME is an independent think tank based in Islamabad.

PRIME facilitates in informed decision making by advocating economic policy reforms through independent research and intellectual outreach. It promotes personal choice, voluntary exchange and freedom leading to the economic well-being of individuals in Pakistan.

Current study "Export Development Fund: A Critical Analysis and Roadmap for Restructuring", highlights various factors in the Export Development Fund, which have led to misallocation and misappropriation of funds instead of boosting exports.

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This report reviews the first six months of the federal government's economic performance spanning over June-December 2013 in the light of PML-N economic agenda, the ruling party. Developed on the pattern of a scorecard, the report allocates scores on 26 goals identified by PML-N manifesto based on its performance in three areas: Economic Revival, Energy Security and Social Protection.

Export Finance Scheme

Export Finance Scheme is a form of subsidy for exporters and departure from market practices. Few and established exporters in conventional industries are only benefiting from this policy. Resultantly, high concentration of exports in few industries, lack of diversification, low innovation and creativity becomes the hallmark of Pakistani industry. PRIME briefing paper highlights these issues and suggests a corrective course addressing business associations.

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