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**Report of Policy Lab on
Bridging Gaps in
Economic Development Policies and their
Implementation in Pakistan**

پاکستان میں اقتصادی بحران سے نمٹنے کی
پالیسیوں کے اطلاق میں حائل رکاوٹوں کا خاتمہ

**Policy Analysis &
Recommendations- Part-5 of 11
Foreign Investment &
Business Environment
Strengthening policies to attract
foreign direct investment (FDI)
and improving the ease of doing business.**

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بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

إِنَّ اللّٰهَ لَا يُغَيِّرُ مَا بِقَوْمٍ حَتّٰی يُغَيِّرُوا مَا بِأَنْفُسِهِمْ

(سورة الرعد 13:11)

بے شک، اللہ کسی قوم کی حالت نہیں بدلتا جب تک وہ خود اپنی حالت کو نہ بدلے۔

Indeed, Allah does not change the condition of a people
until they change what is in themselves.

(Surah Ar-Ra'd 13:11)

ظَهَرَ الْفَسَادُ فِي الْبَرِّ وَالْبَحْرِ بِمَا كَسَبَتْ أَيْدِي
النَّاسِ لِيُذِيقَهُمْ بَعْضَ الَّذِي عَمِلُوا لَعَلَّهُمْ يَرْجِعُونَ

(سورة الروم 30:41)

خشکی اور تری میں فساد ظاہر ہو گیا ہے، لوگوں کے اپنے ہاتھوں کے کیے ہوئے اعمال کی وجہ

سے، تاکہ اللہ انہیں ان کے کچھ اعمال کا مزہ چکھائے، شاید کہ وہ باز آ جائیں۔

Corruption has appeared on land and sea because of
what the hands of people have earned, so that
He may let them taste part of what they have done,
that perhaps they will return (to righteousness).

(Surah Ar-Rum 30:41)

Foreign Investment & Business Environment – Strengthening policies to attract foreign direct investment (FDI) and improving the ease of doing business.

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Executive Summary

This examines Pakistan's legal policies and initiatives regarding Foreign Direct Investment (FDI) and Ease of Doing Business (EODB) at both the federal and provincial levels. The report highlights key legislative and regulatory frameworks, investment policies, and initiatives aimed at improving Pakistan's investment climate.

Federal Level

Investment Policy 2023 The Board of Investment (BOI), under the Ministry of Industries and Production, is responsible for promoting and facilitating investment in Pakistan. The Investment Policy 2023 emphasizes the liberalization of the investment regime, provision of incentives, establishment of Special Economic Zones (SEZs), streamlined approval processes, and investor protection mechanisms.

Tax Laws The Federal Board of Revenue (FBR) oversees tax collection and policy implementation, including corporate tax, income tax, and sales tax. Key initiatives include the Pakistan Single Window, export facilitation schemes, amendments to the Companies Act, intellectual property rights enhancements, automation of tax processes, and tax exemptions for SEZs.

Trade Laws Pakistan's trade laws aim to boost exports and reduce trade barriers through initiatives such as the Trade-Related Investment Framework (TRIPF) 2015–2023, the Foreign Private Investment Act (1976), and the Export Facilitation Schemes (2021). Programs like "Vision Pakistan: Road to \$100 Billion Exports," the E-Commerce Business Facilitation Hub, and trade exhibitions support these efforts.

Investment Laws Pakistan's investment laws, including the Foreign Private Investment Act (1976) and various incentive programs, aim to provide security and attractive conditions for foreign investors. Measures such as customized incentive packages, infrastructure development funds, and dispute resolution mechanisms ensure a favorable investment environment.

Initiatives by SIFC & BOI The Special Investment Facilitation Council (SIFC) and BOI have introduced sector-specific policies like the Investment Promotion Scheme 2020–2023, Electric Vehicle Policy 2020–2025, and Automotive Development Policy. Key investment incentives include:

- No government permission required for most investment sectors.
- 100% foreign equity ownership.
- Unrestricted capital remittance.
- Tax exemptions and reduced import tariffs.
- Liberalized policies for foreign investment, repatriation of profits, and land access for projects.

Provincial Level

Each of Pakistan's provinces—Punjab, Sindh, Khyber Pakhtunkhwa (KP), and Baluchistan—has enacted policies and regulations to enhance EODB and attract FDI.

Punjab

- Punjab Industrial Estates Development and Management Company Act, 2010: Facilitates industrial estate development.
- Punjab Investment Policy, 2019: Provides incentives for investors.
- Punjab Local Government Act, 2019: Simplifies governance for business operations.

Sindh

- Sindh Industrial Trading Estate (SITE) Act, 1961: Regulates industrial areas.
- Sindh Special Economic Zones Act, 2016: Establishes a framework for SEZs.
- Sindh Environmental Protection Act, 2014: Ensures environmental compliance.

Khyber Pakhtunkhwa

- KP Industries Act, 2019: Encourages industrial growth.
- KP SEZ Development and Management Company Act, 2012: Manages SEZ development.
- KP Environmental Protection Act, 2014: Enforces environmental regulations.

Baluchistan

- Baluchistan Development Authority Act, 1972: Supports economic development.
- Baluchistan Industrial Policy, 2016: Promotes industrialization.
- Baluchistan Environmental Protection Act, 2012: Strengthens environmental protection.

Provincial Initiatives for EODB

- **Sindh:** Completion of 140 Registrations, Licenses, Certificates, and Other Permits (RLCOs), with 100 more planned.
- **Punjab:** Conducted an extensive regulatory assessment covering 60+ provincial regulators, identifying 176 unique RLCOs.
 - Established six facilitation centers for EODB in various districts.
- **KP:** Inaugurated an EODB cell in 2021 and developed one-window services for businesses through KP BOIT and KP IT Board.
 - Integrated 13 provincial and five federal regulators into the "Asaan Karobar" business portal.
 - Established an EODB committee in 2019, led by the Minister for Finance and the Special Assistant to the CM on Industries and Commerce.

- Approved 17,768 applications via the Asaan Karobar Business Facilitation Portals.

Pakistan has undertaken significant legal and policy reforms at both the federal and provincial levels to enhance FDI and EODB. These initiatives, including tax reforms, trade facilitation, SEZs, and regulatory simplifications, aim to improve the country's investment climate. Continued implementation and coordination between federal and provincial authorities will be essential in maintaining investor confidence and achieving long-term economic growth.

Analysis of Issues & Challenges

Pakistan faces significant challenges in fostering a business-friendly environment. Investment has largely favored the trading sector over manufacturing, leading to reduced employment opportunities and limited value addition. Economic zones remain scattered, making government support inefficient, while middlemen drive up land costs. Additionally, key performance indicators (KPIs) for manufactured products are either lacking or poorly enforced.

Security Concerns Pakistan continues to struggle with terrorism, insurgency, and political unrest, particularly in regions such as Baluchistan and the tribal areas along the Afghan border. The country consistently ranks high on the Global Terrorism Index, which deters foreign investment and raises operational costs due to security requirements and insurance premiums.

Political Instability Frequent government transitions, including military coups and political upheavals, have contributed to inconsistent policies and investor uncertainty. Pakistan's low ranking on the World Bank's Worldwide Governance Indicators further highlights governance challenges that hinder foreign direct investment (FDI).

Challenges in Business Operations

1. **Registering Property:** The process is time-consuming, requiring multiple procedures and long durations—208 days in Karachi. High costs (4.2% of property value) and an inefficient land administration system add to the difficulties.
2. **Starting a Business:** The cumbersome process involves 10 procedures and takes an average of 16.5 days, with high costs (6.8% of income per capita). Integration issues between regulatory bodies further complicate the process.
3. **Construction Permits:** Businesses must navigate a lengthy approval process—18 procedures in Karachi and 20 in Lahore—delaying projects and increasing costs (11.8% of warehouse value in Karachi). Transparency and centralized approvals are lacking.

4. **Electricity Access:** Connection delays (185 days in Karachi, 117 days in Lahore) and high costs (over 1580% of property value) make it difficult for businesses to operate efficiently.
5. **Access to Credit:** Weak legal protections and limited credit bureau coverage hinder financial access. The absence of a unified electronic credit registry restricts borrowing options for businesses.

International Best Practices for Attracting FDI & Ease of Doing Business

- **Bangladesh:** Infrastructure projects like Padma Bridge, tax reductions, and improved TVET institutions have enhanced business prospects.
- **India:** Initiatives such as “Make in India,” the National Infrastructure Pipeline, and the National Single Window System streamline business processes.
- **China:** Tax exemptions, startup subsidies, and rental assistance promote industrial investment.
- **USA:** Policies such as the Build Back Better plan, corporate tax cuts, and workforce development programs support economic growth and investment.

Pakistan’s legal and institutional frameworks play a crucial role in shaping the business environment. While efforts have been made to improve investment policies and infrastructure, challenges such as bureaucratic inefficiencies, regulatory complexity, and security risks persist. Learning from international best practices and implementing targeted reforms will enhance Pakistan’s ease of doing business, drive economic growth, and attract foreign investments.

RECOMMENDATIONS

a comprehensive set of recommendations aimed at improving Pakistan’s business environment across various regulatory domains. The recommendations are categorized into short-term and medium to long-term actions, ensuring a phased and structured approach to reforms.

Starting a Business

Short-term measures focus on integrating EOBI registration with SECP e-services, merging PESSI/SESSI with labor departments, and promoting online business registration. In the medium to long term, key reforms include eliminating physical inspections, merging STRN and NTN, and establishing a single online portal for all business registrations.

Dealing with Construction Permits

Immediate actions emphasize improving pre-screening, enhancing transparency, and centralizing NOCs. Long-term measures include integrating LDA and SBCA with land management systems, implementing a risk-based approval system, and establishing a single-window facility for construction permits.

Getting Electricity

Short-term efforts involve identifying bottlenecks, improving cost transparency, and allowing installment payments. Long-term reforms include increasing material availability, streamlining wiring inspections, introducing GIS mapping, and investing in smart meters.

Registering Property

Key short-term actions include publicizing service standards, automating stamp duty payments, and linking PLRA with the Excise and Taxation Department. Long-term reforms focus on digitizing ownership records, establishing a unified land administration agency, and streamlining land dispute resolution processes.

Getting Credit

Immediate measures include adopting regulations under the Secured Transactions Act and integrating utility data into credit reports. Structural improvements involve legal amendments to enhance secured transactions and corporate rehabilitation frameworks.

Protecting Minority Investors

Short-term recommendations address independent reviews of related-party transactions and strengthening shareholders' rights. Long-term reforms suggest requiring shareholder approvals for major corporate decisions and improving investor protection disclosures.

Paying Taxes

Immediate steps involve enabling e-payments and streamlining GST processes. Over the long term, extending e-filing to all tax categories and enhancing risk-based audits will improve efficiency and compliance.

Trading Across Borders

Short-term actions target streamlining port operations, improving Customs risk management, and automating export documentation. Long-term reforms focus on enhancing electronic trade systems, deploying data analytics, and implementing a Port Community System.

Enforcing Contracts

Short-term improvements include assessing court delays, establishing specialized commercial courts, and digitizing court processes. Long-term initiatives aim to provide continuous judicial training and promote mediation.

Resolving Insolvency

Immediate priorities involve enacting secondary legislation and creating an insolvency registry. Long-term recommendations include introducing simplified SME insolvency procedures, enhancing debtor-in-possession frameworks, and improving judicial capacity for insolvency cases.

Conclusion

These reforms aim to improve Pakistan's regulatory environment, enhance business competitiveness, and drive economic growth. Implementing these recommendations will foster ease of doing business, attract investment, and strengthen the country's overall economic resilience.

Introduction

This paper evaluates the legal and institutional frameworks governing business operations and investments in Pakistan at both federal and provincial levels. It explores the roles and initiatives of various government bodies, such as the Board of Investment, Federal Board of Revenue, and provincial investment authorities, in fostering a conducive environment for business growth and attracting foreign investments. Additionally, it assesses the challenges and opportunities faced by Pakistan in enhancing its ease of doing business and promoting foreign direct investments.

Problem Statement

Pakistan's legal and institutional frameworks, despite the presence of agencies like the Board of Investment, face challenges in facilitating ease of doing business and attracting foreign direct investments due to bureaucratic hurdles, infrastructure deficiencies, security risks, and regulatory complexities. These challenges hinder business operations and investment inflows, impeding Pakistan's global competitiveness. Addressing these issues through simplified procedures, infrastructure development, improved security, and regulatory stability is crucial for enhancing economic prospects and attracting foreign investments.

Analysis

Situational Analysis of Pakistan's Institutional Framework related to FDI and EOBD at Federal & Provincial Level

Federal Level

Board of Investment:

Founded in 1992, this agency promotes local and foreign investment, providing support and assistance to investors.

SIFC:

Established under the Prime Minister's leadership to attract foreign investment and boost economic growth, it led to the Pakistan Investment Policy (PIP) 2023.

Ministry of Commerce & Trade:

Focuses on economic growth, trade facilitation, and export competitiveness, aiming to reduce the cost of doing business and increase global market access.

Federal Board of Revenue:

The main tax collection agency, established in 1924, responsible for administering and collecting federal taxes to promote fiscal self-reliance.

Special Economic Zone Authority:

Oversees the development and management of SEZs, areas with incentives to attract investment and promote exports.

Securities and Exchange Commission of Pakistan (SECP):

Regulates the corporate sector and capital markets, simplifies regulations, and enhances investor protection to promote ease of doing business.

Provincial Level

Punjab:

- Punjab Board of Investment and Trade (PBIT): Promotes investment and improves EODB.
- Punjab Revenue Authority (PRA): Collects sales tax on services.
- Punjab Small Industries Corporation (PSIC): Supports SMEs.

Sindh:

- Sindh Board of Investment (SBI): Promotes investment and facilitates investors.
- Sindh Revenue Board (SRB): Collects sales tax on services.

Khyber Pakhtunkhwa (KP):

- KP Board of Investment and Trade (KPBOIT): Promotes investment and facilitates investors.
- KP Revenue Authority (KPRA): Collects sales tax on services.

Baluchistan:

- Baluchistan Board of Investment and Trade (BBIT): Promotes investment and facilitates investors.
- Baluchistan Revenue Authority (BRA): Collects sales tax on services.

SWOT Analysis of EoDB Institutions (Federal and Provincial)

Strengths

1. Strategic Location: Pakistan's strategic location provides access to regional markets and trade routes, offering opportunities for investment and trade promotion.
2. Investment Incentives: Various institutions offer investment incentives, including tax exemptions, reduced tariffs, and streamlined approval processes to attract investors.
3. Sectoral Focus: Institutions focus on key sectors such as energy, infrastructure, manufacturing, and agriculture, aligning efforts with economic development priorities.
4. One-Window Facilities: Institutions provide one-window facilities to simplify the investment process, reducing bureaucratic hurdles and promoting ease of doing business.
5. Infrastructure Development: Institutions oversee infrastructure development, providing essential facilities and utilities to support industrial activities and attract investment.
6. Investment Promotion Activities: Institutions conduct seminars, roadshows, and conferences to showcase investment opportunities and attract potential investors.
7. Trade Policy Formulation: Institutions formulate trade policies to promote exports, enhance competitiveness, and facilitate trade by reducing trade barriers and improving customs procedures.

Weaknesses:

1. Bureaucratic Procedures: Bureaucratic red tape within government departments delays investment projects and hinders business operations.
2. Infrastructure Challenges: Inadequate infrastructure, including power shortages and transportation issues, poses challenges for investors and businesses.
3. Security Concerns: Security risks in certain regions undermine investor confidence and deter foreign investment.
4. Regulatory Environment: Complex and frequently changing regulatory requirements create uncertainty for investors, affecting business decisions and investment plans.
5. Corruption: Corruption within government institutions undermines trust in the investment environment and hampers transparency and accountability.
6. Lack of Automation: Government agencies are not fully automated, resulting in manual

processes and delays.

7. **Lack of Coordination:** Poor coordination between different agencies leads to delays in project execution and decision-making.

Opportunities:

1. **China-Pakistan Economic Corridor (CPEC):** Institutions can leverage CPEC-related infrastructure projects to attract investment, promote industrialization, and enhance regional connectivity.
2. **Export Diversification:** Promoting investment in export-oriented industries can diversify Pakistan's export base and capitalize on international market opportunities.
3. **Renewable Energy:** Promoting investment in renewable energy projects can address energy shortages, reduce reliance on fossil fuels, and attract sustainable investments.
4. **Technology Transfer:** Encouraging technology transfer initiatives can enhance productivity, innovation, and competitiveness in key sectors.
5. **Regional Integration:** Strengthening regional trade agreements and partnerships can expand market access for Pakistani exporters and attract investment from neighboring countries.

Threats:

1. **Economic Instability:** Macroeconomic challenges such as inflation, currency devaluation, and fiscal deficits erode investor confidence and deter long-term investments.
2. **Political Uncertainty:** Political instability, governance issues, and policy unpredictability undermine investor confidence and deter foreign investment.
3. **Global Economic Uncertainty:** External factors such as global economic downturns, trade tensions, and geopolitical risks impact investment flows and economic growth prospects.
4. **Security Risks:** Security challenges, terrorism, and political unrest in certain regions deter foreign investors and pose risks to business operations.
5. **Regulatory Risks:** Changes in regulations, inconsistent enforcement, and policy reversals create uncertainty for investors, affecting business continuity and investment decisions.

***Situational Analysis of Pakistan's Legal Policies & Initiatives
Regarding FDI and EOBD at Federal & Provincial Level
Federal Level***

Investment Policy 2023:

In Pakistan, the issuance and formulation of investment policies are primarily the responsibility of the federal government. The Board of Investment (BOI) has been entrusted with the task of promoting and facilitating investment in Pakistan. The BOI works under the Ministry of Industries and Production and serves as the central agency responsible for implementing the government's investment policies and strategies. Major initiatives under the policy include the liberalization of the investment regime, incentives and facilitation for investors, SEZs, streamlined approval processes for registration and licensing, investor protection schemes, and sector-specific policies.

Tax Laws:

The Federal Board of Revenue (FBR) is responsible for tax collection and policy in Pakistan. It provides guidelines for taxation, including corporate tax, income tax, and sales tax. Major initiatives include the Pakistan Single Window, export facilitation schemes, amendments to Sections 71, 212, and 255 in the Companies Act, 2017, intellectual property rights, automation of income tax business processes, and tax exemptions for SEZs.

Trade Laws:

Trade laws aim to promote exports, reduce trade barriers, and improve the competitiveness of Pakistani businesses in international markets. Initiatives include the Trade-Related Investment Framework (TRIPF) 2015–2023, the Foreign Private Investment (Promotion and Protection) Act, 1976, and the Export Facilitation Schemes, 2021. Other efforts, such as "Vision Pakistan: Road to \$100 Billion Exports," the E-Commerce Business Facilitation Hub, trade exhibitions at expo centers, and policy formulation by Pakistan Customs, the Ministry of Commerce & Trade, and the Inland Revenue Service, support these goals.

Investment Laws:

Pakistan has laws governing foreign investment, such as the Foreign Private Investment (Promotion and Protection) Act, 1976, and the Investment Policy, which outlines incentives, protections, and procedures for foreign investors. These initiatives, including customized incentive packages, infrastructure development funds, and investor outreach programs, aim to create a conducive investment environment by providing incentives, ensuring investor protection, and facilitating dispute resolution.

Initiatives by SIFC & BOI:

1. Sector-Specific Policies: Investment Promotion Scheme 2020–2023, Electric Vehicle Policy 2020–2025, Mobile Development Policy, and Automotive Development Policy.
2. Attractive Investment Packages:
 - i. No government permission required for investments in agriculture, social, infrastructure, services, and manufacturing sectors (except for four specific manufacturing areas: arms & ammunition, high explosives, radioactive substances, and security printing).
 - ii. 100% foreign equity allowed.
 - iii. Remittance of capital, profits, and dividends permitted.
 - iv. Tax exemptions and reduced import tariffs.
 - v. Liberalized policies on royalties, technical fees, and foreign investment in most sectors.
 - vi. Simplified equity requirements and rights for foreign investors to repatriate profits and access land for projects.

Provincial Level

Pakistan's four provinces—Punjab, Sindh, Khyber Pakhtunkhwa (KP), and Baluchistan—each have legislative frameworks governing Ease of Doing Business (EODB) and Foreign Direct Investments (FDIs).

Punjab:

The Punjab Industrial Estates Development and Management Company Act, 2010, facilitates industrial estate development, while the Punjab Investment Policy, 2019, outlines investor incentives. The Punjab Local Government Act, 2019, streamlines local governance, affecting business operations.

Sindh:

The Sindh Industrial Trading Estate (SITE) Act, 1961, governs industrial areas, while the Sindh Special Economic Zones Act, 2016, provides a framework for SEZs. The Sindh Environmental Protection Act, 2014, ensures environmental compliance.

Khyber Pakhtunkhwa:

The Khyber Pakhtunkhwa Industries Act, 2019, promotes industrial development. The KP SEZ Development and Management Company Act, 2012, and the KP Environmental Protection Act, 2014, govern SEZs and environmental compliance.

Baluchistan:

The Baluchistan Development Authority Act, 1972, supports economic growth, while the Baluchistan Industrial Policy, 2016, encourages industrialization. The Baluchistan Environmental Protection Act, 2012, mandates environmental protection measures.

5.3 Initiatives Taken by Provinces

- The government of Sindh has completed 140 Registrations, Licenses, Certificates, and Other Permits (RLCOs) and has earmarked 100 RLCOs for the second phase.
- In Punjab, the assessment of business regulations exercise was initiated in February 2021 with the support of all provincial departments and completed in December 2022.
- More than 60 provincial regulators/issuing authorities were covered under this extensive exercise.
- As a result, around 176 unique Registrations, Licenses, Certificates, Permits, NOCs, etc., issued by different regulators were identified.
- In the first phase, six (6) departments, including Industries, Agriculture, Livestock, Housing, Environment, and Local Government, were selected for implementation.
- Six facilitation centers have been established in six districts of Punjab for EODB.
- The EODB cell was inaugurated on March 31, 2021, in KPBOIT.
- Development of one-window services for the business community has been undertaken by the KP Board of Investment and Trade and the KP Information Technology Board.
- An EODB committee was established in March 2019, headed by the Minister for Finance KP and the Special Assistant to the CM KP on Industries and Commerce.
- The One Window Business Portal (Asaan Karobar) was established, integrating 13 provincial and 5 federal regulators into the portal.
- The Halal Food Authority was successfully integrated into the Asaan Karobar Portal.
- An Investment Promotion Guide for business community guidance was developed.
- A total of 17,768 applications were approved out of 20,160 via the Asaan Karobar Business Facilitation Portals (Sarwar, 2024).

Gap Analysis: Pakistan's EODB and FDI Policies
Foreign Direct Investment (FDI) Attractiveness

Current State (As-Is):

Pakistan's FDI inflows have been below target in recent years, with only a few sectors and industries attracting significant foreign investment. This limited FDI presence restricts economic growth and diversification.

Desired Future State (To-Be):

The goal is to achieve a diversified FDI portfolio across various high-growth sectors, significantly increasing FDI inflows to meet national development goals.

Gap:

To bridge this gap, it is crucial to identify and address barriers hindering FDI in key sectors. This involves understanding investor concerns, improving sector-specific policies, and creating a more conducive investment climate.

Ease of Doing Business

Current State (As-Is):

Pakistan currently ranks low in global ease of doing business indices, reflecting cumbersome regulations and bureaucratic hurdles that deter business operations and growth.

Desired Future State (To-Be):

A streamlined regulatory environment where business-related processes are simplified and digitized, enhancing efficiency and reducing red tape.

Gap:

To achieve this, Pakistan needs to undertake comprehensive reforms to simplify business procedures, eliminate unnecessary regulations, and leverage digital technologies to facilitate easier business transactions and operations.

Regulatory Environment

Current State (As-Is):

The application of laws and regulations in Pakistan is often inconsistent, creating uncertainty and discouraging investment and business activities.

Desired Future State (To-Be):

A robust and transparent regulatory framework that ensures consistent application of laws and builds investor confidence.

Gap:

Closing this gap requires a thorough review and reform of existing laws and regulations to ensure they are clear, fair, and consistently applied. Establishing transparent regulatory practices will be key to building a stable business environment.

Infrastructure and Support

Current State (As-Is):

Pakistan's physical infrastructure, including power, transportation, and logistics, is inadequate and outdated, hampering economic activities and growth.

Desired Future State (To-Be):

Modernized and well-developed infrastructure that supports efficient business operations and attracts investment.

Gap:

Addressing this gap involves prioritizing infrastructure development projects, securing funding, and ensuring timely and quality execution of these projects to build a strong foundational support system for the economy.

Talent and Workforce

Current State (As-Is):

There are significant skills gaps in certain industries and technical fields, limiting the country's ability to support and sustain industrial growth and innovation.

Desired Future State (To-Be):

A highly skilled and adaptable workforce equipped to meet the demands of various industries.

Gap:

Bridging this gap requires substantial investment in education and vocational training programs, focusing on aligning curricula with industry needs and fostering continuous skill development to create a competitive workforce.

Incentives and Policies

Current State (As-Is):

Existing incentive schemes in Pakistan are limited in scope and impact, failing to attract substantial investment or drive desired economic outcomes.

Desired Future State (To-Be):

Attractive, comprehensive, and well-structured incentive programs that effectively draw investments and stimulate economic growth.

Gap:

To enhance the effectiveness of investment incentives, there needs to be a comprehensive review and enhancement of current schemes. This involves designing incentives that are more appealing to investors, addressing their needs and concerns, and ensuring these programs are well-promoted and accessible.

Analysis of Issues & Challenges

In Pakistan, investment has favored the trading sector over manufacturing, leading to fewer jobs and less value addition. Manufacturing drives employment and establishes linkages with other sectors. Economic Zones are scattered, complicating government support. Middlemen inflate land prices and commissions. Additionally, KPIs for manufactured products are either absent or poorly enforced.

Security Concerns:

- Pakistan has faced persistent security challenges, including terrorism, insurgency, and political unrest, particularly in regions like Baluchistan and the tribal areas along the Afghan border.
- The Global Terrorism Index consistently ranks Pakistan among the countries most affected by terrorism.
- Security concerns not only deter foreign investors but also increase the cost of doing business due to the need for security measures and higher insurance premiums.

Political Instability:

- Pakistan has experienced frequent changes in government due to political instability, with military coups and civilian governments being overthrown.
- According to the World Bank's Worldwide Governance Indicators, Pakistan's political stability and absence of violence/terrorism scores have been relatively low compared to other countries in the region.
- The uncertainty arising from political instability can lead to inconsistent policies and regulations, which are detrimental to attracting FDI.
- Reference: World Bank, Worldwide Governance Indicators

Registering Property:

- The procedures and duration for registering property are lengthy. It involves 8 procedures in Karachi and 6 in Lahore, with a particularly long duration of 208 days in Karachi.

- The cost of property registration is 4.2% of the property value, which is significantly expensive for businesses.
- The quality of the land administration index is low (7/30 in Karachi), indicating inefficiencies and potential inaccuracies in the land registration process.
- The system is not fully automated, and there is a lack of transparency in procedures.
- There is an absence of efficient mechanisms to handle land disputes, leading to delays and uncertainties.

Starting a Business:

- Entrepreneurs face a cumbersome process involving 10 different procedures and a lengthy duration of approximately 16.5 days to officially start a business.
- The cost of starting a business is relatively high at 6.8% of the income per capita, making it financially burdensome for many entrepreneurs.
- The registration processes for various institutions like the Employees' Old-Age Benefits Institution (EOBI), Social Security Institutes (PESSI/SESSI), and Provincial Labor Departments in Punjab and Sindh are not fully integrated, causing inefficiencies and delays.

Dealing with Construction Permits:

- The procedures and processing times for obtaining construction permits are lengthy. It takes 18 procedures in Karachi and 20 in Lahore, with processing times of 261 days and 266 days, respectively, ultimately delaying construction projects.
- In Karachi, the cost of obtaining construction permits is 11.8% of the warehouse value, which is prohibitively expensive for many businesses.
- The approval process for construction permits lacks transparency, with no centralized system to streamline the obtaining of necessary No Objection Certificates (NOCs) from various agencies.
- Requirements such as the property valuation form (PT-1) from WASA in Lahore add unnecessary complexity and delays.

Getting Electricity:

- The process to obtain an electricity connection takes 185 days in Karachi and 117 days in Lahore, which is excessively long compared to global standards.
- The cost of getting electricity is extremely high, amounting to over 1580% of the property value.
- The procedures, guidelines, and fees are not transparent, making it difficult for businesses to navigate the application process.
- There is no reliability in the supply of electricity, and tariffs are not transparent, contributing to uncertainty and operational challenges for businesses.

Getting Credit:

- The strength of the legal rights index is low (2/12), indicating inadequate protection for creditors and borrowers.
- The credit registry and credit bureau coverage are limited, restricting access to comprehensive credit information.
- The secured transactions framework is not fully operational, and there is no unified geographically notice-based, searchable electronic registry.
- Credit reporting service providers do not cover data from various sources such as retailers and utilities, limiting the depth of credit information available.

International Best Practices for Attracting FDI & Ease of Doing

Business

Bangladesh

- Padma Bridge, Dhaka Elevated Expressway.
- One-Stop Service Act (2018), Startup Bangladesh (2021).
- TVET institutions increased from 5,800 (2017) to 9,000 (2023).
- Bangladesh-Germany Institute of Technology (2020).
- Reduction of corporate tax from 30% to 22%.
- Multilateral Investment Guarantee Agency (MIGA) insurance for investors against non-commercial risks and political unrest.

(Source: lloydsbanktrade.com, April 2024)

India

- 8.2.1 National Infrastructure Pipeline (NIP), which forecasts investment in 7,000 projects.
- 8.2.2 "Make in India" and "Digital India" initiatives.
- 8.2.3 Atmanirbhar Bharat Abhiyan (Self-Reliant India Mission).
- 8.2.4 Focus on economy, infrastructure, technology-driven systems, vibrant demography, and demand.
- 8.2.5 Empowered group of secretaries providing support and facilitation to investors.
- 8.2.6 National Single Window System introduced.
- 8.2.7 Project development cells established in 29 departments.

(Source: Financial Express, April 18, 2024)

China

- 8.3.1 25% tax exemption for income-generating establishments in China.
- 8.3.2 15% tax exemption for industries situated in the western regions.
- 8.3.3 Start-up subsidy of RMB 5 million.
- 8.3.4 Rental subsidy equal to 30% of the total rent.
- 8.3.5 Performance rewards ranging from RMB 2 million to RMB 5 million.
- 8.3.6 10% tax credit for industries utilizing domestic raw materials.

(Source: taxsummaries.pwc.com)

USA

- 8.4.1 Infrastructure Investment: Initiatives like the Build Back Better plan and the Bipartisan Infrastructure Investment and Jobs Act.
- 8.4.2 Taxation: Tax Cuts and Jobs Act (2017) lowered the corporate tax rate from 35% to 21%.
- 8.4.3 Workforce Development: Investment in apprenticeship programs, vocational training, and STEM education.
- 8.4.4 Immigration Policies: Reviewing programs like the EB-5 Immigrant Investor Program for better alignment with economic priorities.
- 8.4.5 Trade and Investment Agreements: Negotiating BITs, FTAs, and regional trade pacts to facilitate cross-border investment.
- 8.4.6 Technology and Innovation: Investing in AI, biotechnology, advanced manufacturing, and R&D funding.

Conclusion

Pakistan's legal and institutional frameworks at both federal and provincial levels play a crucial role in shaping the business environment and attracting investments. While initiatives such as investment policies, tax reforms, and infrastructure projects have been introduced, challenges such as bureaucratic red tape, infrastructure deficiencies, security risks, and regulatory complexities persist. By learning from international best practices and addressing these challenges through targeted reforms, Pakistan can enhance its ease of doing business, stimulate economic growth, and attract foreign investments for sustainable development.

Recommendations

Starting a Business

Short-term:

1. Integrate EOBI registration with SECP e-services.
2. Merge PESSI/SESSI with Provincial Labor Departments in Punjab and Sindh.
3. Clarify and promote online business registration.

Medium to Long-term:

4. Eliminate physical inspections and biometric appointments for sales tax registration.
5. Merge STRN and NTN for a unique business ID.
6. Create a single online portal for all registrations.
7. Remove the company seal requirement and promote awareness.

Dealing with Construction Permits

Short-term:

1. Improve pre-screening and adhere to timelines.
2. Increase transparency in permit approvals.

3. Centralize NOCs for all construction types.
4. Remove the PT-1 requirement from WASA in Lahore.
5. Expand the e-permit system and e-payments in Lahore.

Medium to Long-term:

6. Link LDA and SBCA with land management systems.
7. Implement a risk-based approval system.
8. Set up a single window for construction permits.
9. Allow private firms to sign off on completion certificates.
10. Introduce defect liability legislation and insurance in Lahore.

Getting Electricity

Short-term:

1. Study the application process for bottlenecks.
2. Provide cost calculators and transparency.
3. Allow installment payments for fees and deposits.
4. Include load shedding in SAIDI and SAIFI calculations.
5. Set binding time limits for grid connections.

Medium to Long-term:

6. Increase material availability at utilities.
7. Streamline internal wiring inspections.
8. Implement a full online application system with e-payments.
9. Introduce GIS for the electricity network.
10. Obtain excavation permits for clients in Karachi.
11. Invest in smart meters.

Registering Property

Short-term:

1. Publicize service standards and time limits in Karachi.
2. Increase transparency by publishing land dispute stats.
3. Raise awareness about reforms and legal requirements.
4. Track and address property registration complaints.
5. Automate stamp duty payments in Karachi and Lahore.
6. Link PLRA and Excise and Taxation Department systems in Lahore.
7. Fully automate NOC procedures in Karachi.
8. Review land procedures at the Board of Revenue in Karachi.

Medium to Long-term:

9. Fully digitize ownership records and cadastral plans.
10. Establish a single land administration agency in Karachi.
11. Train staff for new land systems.
12. Reduce time for land dispute decisions and streamline processes.

Getting Credit

Short-term:

1. Adopt regulations for the ST Act.
2. Include retailer and utility data in credit reports.
3. Implement a unified electronic secured transactions registry.

Medium to Long-term:

4. Amend the legal framework for a unified system.
5. Amend the Corporate Rehabilitation Act for automatic stay limits.
6. Amend the Companies Act for priority payment to secured creditors.
7. Promote awareness and capacity-building for the ST Act.

Protecting Minority Investors

Short-term:

1. Require independent review and public disclosure of related-party transactions.
2. Allow shareholders to hold directors liable for unfair transactions.
3. Give courts authority to cancel unfair transactions.
4. Allow plaintiffs to question defendants and recover legal expenses.

Medium to Long-term:

5. Require shareholder approval for new shares or members.
6. Require tender offers for 50% acquisitions in limited liability companies.
7. Increase investor protection with management compensation disclosure.
8. Allow shareholders with 5% ownership to add meeting agenda items.

Paying Taxes

Short-term:

1. Enable e-payment for Corporate Income Tax and GST.
2. Streamline GST filing and payment processes.
3. Conduct outreach on new tax systems and reforms.

Medium to Long-term:

4. Extend e-filing and e-payment to all taxes and contributions.
5. Study the feasibility of merging tax filings and payments.
6. Improve GST refund processing times.
7. Enhance risk-based audits for GST and CIT.

Trading Across Borders

Short-term:

1. Streamline port processes to eliminate duplicate activities.
2. Improve the Customs risk management system.
3. Automate price certificates for exports.
4. Reduce bill of lading processing time.
5. Expedite electronic Certificate of Origin issuance.

Medium to Long-term:

6. Improve electronic I-Form and Form-E systems.
7. Implement a smart examination system for red channel consignments.
8. Discourage ports as free storage areas.
9. Deploy business intelligence and data analytics tools.
10. Implement the Port Community System and Pakistan National Single Window System.

Enforcing Contracts

Short-term:

1. Assess court processes and legal frameworks to reduce delays.
2. Create specialized commercial courts.

3. Introduce case management practices and pretrial conferences.
4. Support electronic filing and court automation.

Medium to Long-term:

5. Provide continuous training for judges.
6. Promote mediation and conciliation.
7. Evaluate increasing the jurisdictional threshold of the Sindh High Court.

Resolving Insolvency

Short-term:

1. Enact secondary legislation for the Corporate Rehabilitation Act.
2. Create an accessible insolvency registry.

Medium to Long-term:

3. Introduce simplified procedures for SME insolvency.
4. Allow post-commencement financing in non-administration proceedings.
5. Revise the Corporate Rehabilitation Act to enhance creditors' rights.
6. Extend powers for debtor-in-possession procedures.
7. Add a pre-packaged restructuring option for swift processing.
8. Improve judicial capacity for insolvency cases.

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