

Implementation Plan for Improving Business Climate in Pakistan

Introduction

Under IMF Extended Fund Facility (EFF), Government has a commitment to improving business climate and to make a viable time bound implementation plan to be shared with IMF by end March 2014.

Government of Pakistan's Initiatives

BOI being the investment promotion agency has given the lead role to formulate workable plan for improving business climate. A Technical Committee was constituted comprising representatives of federal & provincial stakeholders and rep of the business community to work on Ease of Doing Business. The focus was to simplify the procedures & processes and to reduce the time & cost involved at various stages of business cycle.

Ease of Doing Business

In market economy the government as a facilitator creates conducive business climate to enhance investors' confidence. The enabling regulatory environment of the country affects at all stages of business life cycle and plays a pivotal role in attracting domestic and foreign investment. Resultantly, improved state-business relations and better investment climate help business to thrive in local and international markets. All over the world, the emphasis is on ease of doing business and following business indicators developed by the World Bank are the bench mark to evaluate a county's business climate:

- i. Starting a Business
- ii. Deal with Construction Permits
- iii. Paying Taxes
- iv. Trading Across Borders
- v. Enforcing Contracts
- vi. Getting Electricity
- vii. Registering Property
- viii. Getting Credit
- ix. Protecting Investors
- x. Resolving insolvency

Pakistan's Business Climate

Pakistan in year 2006 ranked at number 61 which gradually slid down to 110 on scale in year 2014.

2014	2013	2012	2011	2010	2009	2008	2007	2006
110	107	105	83	85	85	74	69	61

Comparison with Regional Countries

Pakistan is not far behind on ease of doing business as compare to the regional countries. The regional countries' ranking of last two years have also fallen except for Malaysia and Turkey.

Country	2013	2014
Bangladesh	129	130
China	91	96
India	132	134
Sri Lanka	81	85
Malaysia	12	6
Turkey	71	69
Pakistan	107	110

Pakistan has tremendous potential to become regional business hub due to its strategic location and conducive investment climate. This will eventually bring peace and development in the region.

Pakistan Ranking on each Business Indicator

Based on our business improvement plan shared with the IMF in the first review meeting held in Islamabad in November 2013, an implementation plan has been prepared in consultation with key stakeholders and provincial governments. The plan Phase-I is focused on the following five business indicators:

- i. Starting a Business
- ii. Dealing with Construction Permits
- iii. Paying Taxes
- iv. Trading Across Borders
- v. Enforcing Contracts

The table given below shows the ranking of Pakistan in these business indicators for the last two years:

Business Indicator	2013	2014	Change
Starting a Business	99	105	-6
Dealing with Construction Permits	103	109	-6
Paying Taxes	166	166	No Change
Trading Across Borders	90	91	-1
Enforcing Contracts	159	158	1

Main Objectives of the Plan

- i. Improving the efficiency and effectiveness of business procedures and enhancement of Transparency of business processes with special focus of Limited Liability Companies (LLC) and Small and Medium Enterprises (SMEs).
- ii. Reducing procedures and time involved to start a business.
- iii. Greater revenue collection and enhanced investor and consumer confidence.
- iv. Improving awareness about automation of the customs procedures.
- v. Strengthening inland clearance facilities, improving electronic data interchange system and improving inland transportation infrastructure capacity.
- vi. Enhancing predictability and consistency in business-related policies.
- vii. Encouraging out of court settlement in case of disputes, and strengthening of legal infrastructure for contract enforcement.

Small and Medium Enterprises (SMEs)

Business regulatory environment is particularly relevant for Small and Medium Enterprises (SMEs)-the key drivers of competition, economic growth, job creation, especially in developing countries like Pakistan. SMEs are a key element of its economic landscape, and up to 99 percent of establishments employ 1-20 workers. Collectively, SMEs in Pakistan provide about 78% of non-traditional employment, contribute almost 40% of GDP, and account for some 30% of manufacturing exports to earn foreign exchange to support the economy.

Limited Liability Companies (LLC)

Government is committed, in consultation with Finance Division, SECP, FBR and EOBI to;

- (i) Complete establishment of a virtual One-Stop-Shop (OSS for limited liability companies;
- (ii) Establish physical OSSs for limited liability companies in at least two provinces; and
- (iii) Approve framework and strategy for registration of Non-LLCs.

Meeting with Stakeholders/ Provincial Governments

To improve the business climate in the country, BOI held meetings with Finance Division, SECP, EOBI, FBR, Provincial Governments including Provincial departments (Labor, Social Security, Excise & Taxation, Works Departments), including Private Sector.

Implementation Plan Methodology:

The implementation plan will be implemented in two phases. In the short run as a pilot project, specific attention would be paid to improve various procedures involved in the city of Karachi, which is a business hub and also serve as a representative of economy of Pakistan in the World Bank Doing Business Report. In the long run, the same would be followed all over the country. Regular review will also be undertaken by considering interdepartmental integrations and removal of redundant processes.

Business Improvement Implementation Plan

Indicator 1: Starting a Business

Present Status: This business indicator reports 10 procedures and takes 21 days to complete the business registration process and costs 10.4% of per capita income.

There are difference in the time and cost needed to start a business in various cities of Pakistan due to differences in the efficiency of departments/ agencies and variations in the use and availability of online services. Business start up times varies from 16 day in Islamabad to 24 days in Gujranwala.

Goal: Establishment of One Stop Shop and preparing for mandatory business registration and unique ID

Objective: Reduction of processes/ time involved through integration of steps involved in the registration process.

Time Frame: Short and Long Terms

Stakeholders: SECP, EOBI, FBR, Finance Division, Provincial Governments and BOI.

Work Plan

Action(s)	Timelines
Implementation of Virtual One Stop Shop (VOSS), encompassing business registration procedures of LLCs related to SECP, FBR and EOBI	Work is being done on software & portal development along with integration of implementing agencies systems. (World Bank committed US\$300,000/- for software development and recurring cost for 3 years and balance of US\$200,000/- for hardware yet to be arranged). VOSS system will live by end June 2014.
Development of physical OSS, initially at Lahore followed by other provincial capitals	Physical OSS functional at Lahore by June 2015.
Mandatory business registration	Preparation of concept paper by Finance Division by end June 2014. The proposal needs to be assessed in the light of constitutional constraints and would entail extensive changes in the existing pieces of legislation or formulation of new legislation.
Implementation of unique ID concept	Preparation of concept paper by Finance Division to consider SECP registration as Corporate Universal Identification No. (CUIN), by end June 2014 as the proposal would entail active collaboration amongst all the concerned authorities and may also require changes in their respective legal frameworks.

Expected Improvement

- Establishment of a VOSS is likely to improve the business climate by cutting down the number of procedures required for business registration. The integration of registration process of SECP, FBR and EOBI will eliminate the need to submit information by the registrant separately to the three authorities.
- Once the Virtual One Stop Shop is operational, it will result in reduction of 2 procedures and 3 days for starting a business, in terms of the WB Doing Business methodology.

Indicator 2: Dealing with Construction Permits

Present Status: As per World Bank Report, Dealing with construction permits in Karachi requires 11 procedures, takes 222 days and costs 190.4% of per capita income. Seven out of Eleven Procedures pertains to SBCA.

The process takes less than 170 days in those cities of Punjab that have recently adopted new building and zoning regulations. In contrast, Karachi is the slowest, with 222 days. Variations in time are mainly due to delays in obtaining building permits and electricity connections. In Karachi and Quetta, it takes 2 months to have the building plan approved. Obtaining an electricity connection is easier in Peshawar, where it takes 40 days. The same process takes 5 weeks longer in Sukkar and Hyderabad.

All cities charge building permits fees, depending upon the size and use of the building.

Goal:

- Rationalization of Inspection Procedures & Improvement in coordination mechanism
- Re-examination of Cost involved

Objective: Reduction of processes/ time and cost involved through rationalization of procedures and cost involved in the process of getting construction permits.

Time Frame: Short and Long Terms.

Stakeholders: Revenue Departments, Provincial Building Departments, Provincial Works Departments, and other relevant Provincial Authorities involved in Construction Permits, Utility Companies

Work Plan

Action(s)	Timelines
Rationalization of Inspection Procedures to reduce at least 30 days in overall time involved and to reduce at least two procedures.	By June 2014
Improvement in coordination between the utilities agencies i.e. KESC, KWSB, SGC, Sub-Registrar and District Administration and police Authority.	By June 2017

Expected Improvement

- Inspection procedures are being rationalized by Sindh Building Control Authority (SBCA) and it will take 186 days to complete the inspection procedure instead of 222 days reported by the World Bank.

- In case of obtaining a building permit it will takes 30 to 45 days instead of 60 days as reported in the World Bank Report. Similarly, it will takes maximum 30 days to receive a completion certificate instead of 51 days reported by the World Bank. Hence, there would be net reduction of 36 days to complete above two procedures.
- Improvement in coordination mechanism will result into reduction of time involved. It will also curb the illegal construction activity in Sindh particularly in Karachi.

Indicator 3: Paying Taxes

Present Status: On average Firms make 47 tax payments a year, spend 577 hours a year filing, preparing and paying taxes and pay total taxes amounting to 34.7% of profit. There are few local variations in the total tax burden, the number of payments, and the time frame for paying taxes in Pakistan.

Goal: Simplification & Streamlining of Tax Procedures and Extension of Automation System for Provincial Tax Collection & Coordination

Objective: Reduction of processes/ time involved through simplification of procedures and introduction of online services.

Time Frame: Short and Long Term.

Stakeholders: FBR, Revenue & Excise & Taxation Departments, Social Security Departments, EOBI, Education Department

Work Plan

Action(s)	Timelines
a. Simplification and integration of Federal and Provincial Taxes	By June, 2015
b. 100% computerization of Infrastructure Cess.	
c. Facilitating the motoring public to pay motor vehicle tax in their respective Districts.	
d. Facilitating Registration of New Motor Vehicles at all Regional Headquarters through 12 NBP Online authorized branches, linked with Main Server at Civic Center, Karachi.	
e. 100% Computerized demand challans for Professional Tax.	
f. Computerization of Property Tax.	

Expected Improvement

- One window facility with no complaint from owners / clearing agents.
- One window operation for Registration of Vehicle.
- Auto linkage with Income Tax Department will broaden tax net.
- Onetime assessment of new properties for assessment of tax.

When filing and paying taxes is just a click away, both the private and public sector benefit. Electronic tax systems lower taxpayers' compliance costs, while helping the government improve the data collection, reduce the administrative cost, minimize the errors and help to administer refunds.

Indicator 4: Trading Across Borders

Present Status: For exporting, a standard container of goods requires 8 documents, takes 21 days and costs \$660. Importing the same container of goods requires 8 documents, takes 18 days and costs \$725

It requires the same number of documents to export to any of the Pakistani cities. It is easiest to export and import from Karachi followed by Hyderabad and Sukkar. The distance to the port is a determining factor and as a result Karachi is the cheapest city from with regard to conduct trade. Pakistan can strengthen inland clearance facilities. Well function inland clearance facilities can improve the import and export process, as entrepreneurs can clear and ship their goods in their respective cities.

Goal:

- Simplification of Trade Procedures
- Strengthening of Trade Infrastructure
- Correction in World Bank Document regarding Fee Structure

Objective: Reduction of processes/ time involved through improvement in trade infrastructure and automation.

Time Frame: Short and Long Term.

Stakeholders: FBR, Ministry of Commerce, Ports & Shipping, Railways & Communications

Work Plan

Action(s)	Timelines
Strengthening of Trade Infrastructure	Continuous process. Most of the initiatives started by the Government to improve road and rail, transportations will be completed by end June 2016.
Pilot Reform Project at Wagah	By June, 2017. IFC of the World Bank has already initiated collaboration FBR to pilot reforms project at Wagah Border to facilitate importers and exporters.
Improve awareness about automation of the line customs procedures.	June 2015
Rationalization of processing fee for customs clearance (As per FBR report only Rs.250/= is charged as processing fee as against US\$ 200 cost for customs clearance reflected in the World Bank report).	June 2014

Expected Improvement

- In the year 2011, an indigenous system of Web Based One Customs (WeBOC) was introduced. It has also drastically reduced the dwell time to 24 hours for 54% of import consignments and 90% of export consignments. Further improvements will be made based on new software/ technologies.
- Improved trade infrastructure will reduce the travelling time from cities to borders.
- Improvement infrastructure at Wagah Boarder will reduce time and cost with respect to import and export. The project will be replicated in other Borders ports of the country.
- The correction in the customs clearance fee will also make improvement in ranking in terms of cost involved for customs clearance

Indicator 5: Enforcing Contracts

Present Status: It takes 976 days, costs is 23.8% of the value of the claim and requires 46 procedures. Out of court settlement is not popular amongst disputing parties

Goal: Use of ADR Mechanism, Strengthen, Sensitization and Expansion of ADR Mechanism, Improvement of Case Management, Establishment of Specialized Tribunals

Objective: Reduction of processes/ time involved through use of ADR mechanism and establishment of Specialized Tribunals

Time Frame: Short and Long Run

Stakeholders: Ministries of Finance and Commerce, BOI, FPCCI, ADR Centers (Lahore & Karachi) and Provincial Governments (Main Counterpart Islamabad Chambers of Commerce and Industries)

Work Plan

Action(s)	Timelines
Implementation of various MOUs signed by Karachi Centre for Dispute Resolution (KCDR) with other organization e.g, KCCI, SECP and ICAP and enforcement of State Bank's Regulation recommending Banks to resolve disputes in respect of nonperforming loans and cases of small business loans through mediation at KCDR.	Early disposal of disputes through ADR mechanism.
Formation of a Committee to develop and implement an electronic case management system across the country, especially at the lower judiciary level.	June 2014
Formation of specialized tribunals	Formation of Committee by June 2014

Establishment of ADR Centre at Islamabad.	Centre functional by June 2015
<ul style="list-style-type: none"> • Approval of Sindh Mediation Act proposed by KCDR. • Amendments in Section 89 A, Civil Procedure Code. • Enforcement of relevant provisions of Laws relating to Mediation 	To be determined in consultation with relevant stakeholders (Commerce and Law)

Expected Improvement

- Early disposal of disputes through ADR mechanism.
- Increased geographical coverage of ADR mechanism will enable a higher proportion of businesses to reach timely out of court settlement of their commercial disputes. Better case management and development of specialized tribunals to improve existing court processes.
- Approval of Sindh Mediation Act proposed by KCDR, amendments in Section 89 A, Civil Procedure Code and enforcement of relevant provisions of Laws relating to Mediation will further improve the ADR mechanism.
- Remarkable reduction in huge backlog of pending cases involving commercial disputes. Considerable reduction in time, cost and procedure for resolving disputes of commercial nature including government revenue etc.

Phase II

In the second phase, rest of the following five business indicators would be focused and action plan will be finalized to address the bottlenecks and improve the environment in these areas:

- i. Getting Electricity
- ii. Registering Property
- iii. Getting Credit
- iv. Protecting Investors
- v. Resolving Insolvency

Phase-II will take care of Foreign Direct Investment (FDI). Based on FDI Strategy (2013-17) a business plan would also be worked out to improve the climate for attracting FDI into Pakistan.
