Vision
To be the premier body for promoting new and existing overseas investment in Pakistan by leveraging the world-class expertise of OICCI Members for the benefit of the Investor and the Country.

Mission
· To assist in fostering a conducive, open and equitable business environment in Pakistan
· To facilitate transfer of best global practices to Pakistan
· To enhance the image of overseas investors in Pakistan, and the image of Pakistan in overseas business communities.

Disclaimer
The report has been prepared by the Overseas Investors Chamber of Commerce and Industry (OICCI) based on the data/information provided by its member companies who responded to the survey. All analysis/comments are based on the data provided.
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INTRODUCTION

About us

Established over 150 years ago in 1860, the Overseas Investors Chamber of Commerce (OICCI) not only represents some of the world’s largest multinational companies, but also facilitates commerce and industry across the country. The 196 OICCI member companies – 57 of whom are listed on the Karachi Stock Exchange – with foreign shareholding from 35 different countries, are collectively represented in 14 sectors, contribute more than 33% of Pakistan’s total tax revenue and provide direct or indirect employment to over one million people.

Activities

As mandated, OICCI is engaged in several value-added activities, including catalyzing Foreign Direct Investment (FDI), enforcement of intellectual property rights, creating a level playing field in the areas of taxation, tariffs protection, international quality standards, physical safety and security of member companies, employees and associates. OICCI also transfers global practices and technology to Pakistan by leveraging world-class expertise of OICCI members for the benefit of the country and investors.

Despite the challenging operating constraints, due to which total FDI in the country in fiscal year 2012-13 was only US$ 1.447 billion, OICCI’s members invested US$ 1.4 billion in capital expenditure in the year 2012, mostly from their own resources.

Managing Committee

The OICCI is governed by a 12-member management committee, from which 8 members and one vice-president are elected annually. For continuity, the elected vice president is nominated president in the following year. Only chief executives of member companies can be part of the managing committee.

In order to ensure optimal sectoral and regional representation, elected members are authorized to co-opt up to three members into the managing committee. OICCI’s Secretary General is also a member of the managing committee.

Criteria for Membership

OICCI’s Articles of Association stipulate the following criteria for membership:

1. All bodies incorporated in Pakistan with 100% paid-up share capital in excess of US$ 5 million or equivalent

2. The Articles of Association define “foreign national” as:
   a. All bodies incorporated in Pakistan with 75% or more paid-up capital owned by a foreign holding company with the proviso that paid-up foreign share capital is not less than US$ 0.5 million or equivalent
   b. All bodies incorporated in Pakistan with 25% or more paid-up capital owned by a foreign holding company, with minimum US$ 0.5 million in foreign shareholding. The foreign shareholder must operate in at least two other jurisdictions / countries besides Pakistan and have group paid-up share capital in excess of US$ 5 million or equivalent
   c. All bodies incorporated outside Pakistan, the majority shareholder of which is a foreign company, with minimum US$ 15 million in foreign shareholding.

3. Any party being a “foreign national” with permanent place of business in Pakistan engaged in commerce and industry within the country is eligible for ordinary membership.

The Articles of Association define “foreign national” as:

1. All bodies incorporated in Pakistan with 25% or more paid-up share capital owned by a foreign holding company with the proviso that paid-up foreign share capital is not less than US$ 0.3 million or equivalent

2. All bodies incorporated in Pakistan with 100% or more paid-up share capital owned by a foreign holding company with minimum US$ 0.3 million in foreign shareholding. The foreign shareholder must operate in at least two other jurisdictions / countries besides Pakistan and have group paid-up share capital in excess of US$ 5 million or equivalent

3. All bodies incorporated outside Pakistan, the majority shareholder of which must also operate in at least two other jurisdictions / countries besides Pakistan and have group paid-up share capital in excess of US$ 5 million or equivalent

Need for a Perception and Investment Survey

The Perception and Investment Survey is a key to OICCI’s core activities and serves as a neutral communication tool for all stakeholders, including the Government of Pakistan, on the overall business and economic climate of the country, as perceived by OICCI members, at a particular point in time and on account of their investments in various sectors.

This informed view can lead to meaningful debate on the right forums, enabling appropriate policy reforms by regulating benefitting commerce and industry.

The Perception and Investment Survey conducted by the OICCI on a regular basis, the latest carried out between September and November 2013 preceded by one carried out towards the end of 2011.

Scope of the Survey

This survey has been conducted in accordance with generally accepted research standards in Pakistan.

The survey questionnaire was updated and modified to seek specific input on current government policy issues such as macroeconomic policies and other political developments in the country impacting OICCI members directly or indirectly. The latest survey, for instance, covered successful political transition and concerns regarding circular debt, foreign exchange account position and optimism on completion of structural benchmarks under the IMF programme.

The survey is also intended to present suggestions for policy makers. It may be noted, however, that the survey should be analyzed in its proper context as it is limited to OICCI members with a stake in local business and industry and, as such, documents perceptions of foreign investors, indicating only some trends.

It is the responsibility of the management of member companies to answer survey questions in line with their respective perceptions as OICCI’s role is limited to gathering data and reflecting an opinion based on their responses.

OICCI is hopeful that the publication of the survey results and conveying them to government and its regulatory bodies will contribute to further improving the investment climate of the country.

The survey is a starting point for foreign investors.
INTRODUCTION

About us

Established over 150 years ago in 1860 primarily as a business chamber for foreign investors, the Overseas Investors Chamber of Commerce (OICCI) not only advocates for the interests of diversified foreign investment in Pakistan but also facilitates commerce and industry across the country. The 196 OICCI member companies – 57 of whom are listed on the Karachi Stock Exchange – with foreign shareholding from 35 different countries, contribute more than 33% of Pakistan’s total tax revenue and provide direct or indirect employment to over one million people. OICCI members are major contributors to various CSR activities in education, health and other sectors, besides making significant contributions in cash and kind for welfare of people affected by natural calamities.

Activities

As mandated, OICCI is engaged in several value-added activities, including catalyzing Foreign Direct Investment (FDI), enforcement of intellectual property rights, creating a level playing field in the areas of taxation, tariffs protection, international quality standards, physical safety and security of member companies, employees and assets. It also transfers global practices and technology to Pakistan by leveraging world-class expertise of OICCI members for the benefit of the country and investors.

Despite the challenging operating constraints, due to which total FDI in the country in fiscal year 2012-13 was only US$ 1.447 billion, OICCI’s members invested US$ 1.4 billion in capital expenditure in the year 2012, mostly from their own resources.

OICCI also communicates with stakeholders, conducts research and disseminates findings through active dialogue with government and its regulatory bodies to formulate business-friendly policies that serve as a reference point for foreign investors.

OICCI’s recent research and publications include:

- Business Confidence Index – August 2013
- OICCI Taxation Proposals 2013-14
- Energy Challenges – OICCI Position Papers on
  - Transforming the Power Sector
  - Road Map for Energy Efficiency and Conservation
  - Natural Gas Value Chain Enhancements
  - Fast Tracking of Liquefied Natural Gas (LNG) Import
  - OICCI’s Articles of Association stipulate the following criteria for membership:
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The Articles of Association define "foreign national" as:

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- Any party being a "foreign national" with permanent place of business in Pakistan engaged in commerce and industry within the country is eligible for ordinary membership.

Criteria for Membership

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International trade delegations, visiting Pakistan, interface with OICCI to gauge the country’s experience and successes of its members in Pakistan at national and international investment forums. OICCI also highlights the international investment forums.

OICCI is hopeful that the publication of the survey results and conveying them to government and its regulatory bodies will contribute to further improving the investment climate of the country.
EXECUTIVE SUMMARY

The Perception and Investment Survey 2013 was conducted between September and November 2013. The perceptions coming out of this survey are therefore a mix of the “feel-good factor” for the new government and good or bad experiences of members with government regulators, ministry boards and institutions during the last few years.

The survey reiterates that foreign investors view Pakistan’s business potential most favorably and are satisfied with the performance of their respective companies. With a population of over 185 million and a middle-class estimated between 50 million to 70 million, bestowed with several natural resources, availability of qualified human resource and fluency of the English language across the country, the sentiments of the respondents are understandable.

Notably, one point emerging from the survey is that respondents perceive “Ease of Doing Business” in Pakistan to be better or the same compared to India, Philippines, Sri Lanka, Bangladesh and more or less equal to Vietnam, despite the fact that recent macro-economic indicators of these countries have been better than Pakistan.

The survey results show that foreign investors view Pakistan’s business environment positively. In fact, forty-four percent plan to invest more over the next 1 to 3 years than the previous 5 years. Moreover, fifty-two percent of the respondents plan to increase their employee investments they made in the same timeframe earlier, whereas forty-six percent consider it not too significant in the context of the country’s much-trumpeted business potential, it still expresses confidence despite ongoing turmoil in the country.

The planned investment in business and human capital is expected to impact revenue and profitability as eighty-three percent of the respondents are expecting increased sales and sixty-eight percent expect their profits to rise, translating into increased contribution to the national exchequer and other avenues with positive impact on both the economy and society.

In the “Aspects of Doing Business” section, while perceptions on “Ease of Running a Business” and “Ease of Getting a Business” have improved over the 2011 survey and Pakistan continues to be ranked favorably for some aspects of doing business such as “Regulatory Framework” and “Access to Local Finance”, it is disappointing to note that in the 2013 survey, once again the delay in settling tax refunds and issues with government organizations remains the most serious concern for foreign investors as they are further aggravated after devolution of federal subjects to the provinces under the 18th amendment to the constitution of Pakistan. The inefficient protection of intellectual and property rights also ranks with the business community. Investors continue to have negative sentiments for the “Cumbersome Fairness of Laws and Regulations”, “Contract Enforcement” and “Level Playing Field”, despite some improvement over the 2011 survey. OICCI will continue to be engaged with the federal and provincial government, to advise them in professionally and proactively managing the above negative perceptions through good governance and consistent implementation of policies. The dividend of improved perception, we believe, could translate into huge increase in investment and economic activity in the country.

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Notably, one point emerging from the survey is that respondents perceive “ Ease of Doing Business” in Pakistan to be better or same compared to India, Philippines, Sri Lanka, Bangladesh and more or less equal to Vietnam despite the fact that recent macro-economic indicators of these countries have been better than Pakistan.

The potential for business growth and opportunities in Pakistan has resulted in nearly all existing foreign investors indicating they intend to continue operating in Pakistan and around two-thirds of the respondents plan to expand operations. Nearly all existing foreign investors indicating they intend to continue operating in Pakistan and around two-thirds of the respondents plan to expand operations.

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The perceived potential of doing business in Pakistan continues to be rated favorably for some aspects of doing business, such as “Regulatory clarity” and “Scopes for Profitability” only. Surprisingly to note that in the 2013 survey, once again the delay in settling tax refunds and issues with government organizations remains the most serious concern for foreign investors as they are further aggravated after devolution of federal subjects to the provinces under the 18th amendment to the constitution of Pakistan.

The devolution of powers from the federation to the provinces has not found favor by respondents, with forty seven percent viewing the development negatively. The main reason for this is conflict between FBR and provincial revenue boards tax laws where unresolved conflicts have led to tax demands by more than one authority on the same transaction. Several respondents have, in fact, reported to the survey that in the 2013 survey, once again the delay in settling tax refunds and issues with government organizations remains the most serious concern for foreign investors as they are further aggravated after devolution of federal subjects to the provinces under the 18th amendment to the constitution of Pakistan.

The protection of intellectual and intangible property rights also ranks with the business community. Investors continue to have negative sentiments for the “Customs/Enforcement of Laws and Regulations”, “Contract Enforcement” and “Levying Paying Field” despite some improvement over the 2011 survey.

The on-going security situation, especially in Karachi, the headquarters of over seventy percent of the members, has resulted in law and order being again ranked as the biggest challenge facing the business community closely followed by energy cost as in the last survey.

With the perception of the present dispensation being more favorable than in 2011, “Political Instability” which emerged as the third biggest challenge in the last survey, stands replaced by the recent “Rupee Depreciation” in the present one.

Total investments indicated by respondents’ amount to roughly US$ 3 billion over the next 5 years. Although this figure is not too significant in the context of the country’s much-trumpeted business potential, it still expresses confidence despite ongoing turmoil in the country.

The ongoing perceived “skewed tax laws” that are expected to impact revenue and profitability as eighty three percent of the respondents are expecting increased sales and sixty eight percent expect their profits to rise, translating into increased contribution to the national exchequer and other avenues with positive impact on both the economy and society.

In the “Aspects of Doing Business” section, while perceptions on “Ease of Running a Business” and “Ease of Getting a Business” have improved over the 2011 survey and Pakistan continues to be ranked favorably for some aspects of doing business, such as “Regulatory clarity” and “Scopes for Profitability”, it is disappointing to note that in the 2013 survey, once again the delay in settling tax refunds and issues with government organizations remains the most serious concern for foreign investors as they are further aggravated after devolution of federal subjects to the provinces under the 18th amendment to the constitution of Pakistan.

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The respondents also expect government to resolve issues, rectify regressive tax policy making, a significant minority still feels government does not involve them adequately.

The good news for the government is that a large majority or eighty three percent of OICCI members have hopes the present government will improve the business climate, with seventy five percent of the members stating they wish to acknowledge the support of the OICCI Managing Committee, Communications & Public Relations subcommittee and the secretariat for the compilation, analysis and publication of this survey.

The results of the surveys are shared with OICCI members, policy makers, media, foreign trade delegations and other organizations, which have a stake in such surveys, in the hope of further improvement in business climate and accruing economic and social benefit to the country.

We would like to thank the member companies for their active participation and wish to acknowledge the support of the OICCI Managing Committee, Communications & Public Relations subcommittee and the secretariat for the compilation, analysis and publication of this survey.

Another area of concern for investors is “Contract Enforcement” where average time to dispose of resolutions over seven years and members have reported cases pending for over fifteen years. Similarly, the average time of over two years taken for “Enforcement of Judgment” a significant issue in the law enforcement structure.

Another aspect of concern is that high risk rating has reduced by twelve percent compared to the 2011 survey when fifty five percent opined risks as “high” and Pakistan continues to be ranked favorably for some aspects of doing business

Another area which needs attention is engagement of key stakeholders in decision making. Although its improvement compared to last survey, regarding the perception on stakeholder involvement in government decision making, a significant minority still feels government does not involve them adequately.

Though a large number of members perceive government policies favorably, sixty six percent are critical of policy implementation. While eighty two percent of respondents are positive about the performance of their respective companies, with a population of over 185 million and a middle-class estimated between 50 million to 70 million, bestowed with several natural resources, availability of qualified human resource and fluency of the English language across the country, the sentiments of the respective companies are understandable.

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Of the 190 members of OICCI at the time of the survey, 112 members, or 59%, responded to the survey. Members are categorized into 14 sectors based on industries they represent; members from 12 of these sectors participated in the survey. Only the Tobacco and the Printing & Publishing sectors, consisting of four OICCI members, abstained. The figure below illustrates the sector-wise participation of 112 survey respondents. Respondents from the financial services sector closely followed by the energy, pharmaceutical, chemical and fertilizer, engineering / industrial products, trading and other services comprised more than two third of the pie. Those sectors which formed a minimal portion of the pie have only a few members in the respective sectors. Since the results are based on feedback from a majority of OICCI members operating in different business sectors, the survey represents the voice of a majority of foreign investors currently operating in Pakistan, and of the business community at large.

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### RESPONDENTS’ PROFILE

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### ANALYSIS OF FINDINGS

#### SECTION I: BUSINESS ENVIRONMENT

The Survey sought members’ views on different facets of business environment in the country. The results are illustrated below.

**EASE OF DOING BUSINESS – A COMPARISON WITH REGIONAL COUNTRIES**

- Respondents have given a more positive rating to Pakistan as compared to the last survey in 2011.
- The investors have indicated an upside in sentiment about investment climate in Pakistan as compared to the sentiments in 2011, as the percentage of respondents rating Pakistan better in ‘Ease of Doing Business’ has improved in comparison to five out of the eight regional economies.
- Pakistan’s perception for doing business has improved by 11% against India as compared to the last survey which seems to be due to the favorable policies for foreign investors, like 100% foreign shareholding and freedom to repatriate capital/profit allowed by the laws in Pakistan.
- As expected, when compared to more developed regional countries, like Malaysia and UAE, who offer a significantly better infrastructure and security environment, Pakistan has a subdued investor interest.
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- On combining ‘Better’ and ‘Same’ rating, investors perceive Pakistan to be a relatively better place than four regional countries: India, Philippines, Sri Lanka and Bangladesh.
- Pakistan’s perception for doing business has improved by 11% against India as compared to the last survey which seems to be due to the favorable policies for foreign investors, like 100% foreign shareholding and freedom to repatriate capital/profit allowed by the laws in Pakistan.
- As expected, when compared to more developed regional countries, like Malaysia and UAE, who offer a significantly better infrastructure and security environment, Pakistan has a subdued investor interest.
ASPECTS OF DOING BUSINESS IN PAKISTAN

The Survey evaluated Ease of Doing Business on thirteen parameters or Aspects of doing business. Perceptions on ‘Ease of Running a Business’ and ‘Ease of Starting a Business’ of doing business. The Survey revealed that Pakistan continues to be ranked favorably for certain aspects of doing business, like the ‘Repatriation of Profit’ and ‘Access to Local Finance’, reflecting the liberal and investor-friendly policies which are appreciated by foreign investors, although there is a drop in the rating of both these factors, perhaps due to some delays in expediting remittances on account of the foreign exchange reserves situation at the time of the survey. This declining trend compared to 2011 should be a cause of concern for the government which needs to look in to these matters to ensure a better business climate compared to regional economies.

On the flipside, the delay in setting tax refunds and timely resolution of issues with government organizations remains a serious challenge to business operations mainly arising due to the devolution of federal subjects to the provinces. These two issues have become major irritants to businesses, as can be noted by the adverse evaluation by 86% of respondents. Delay in settlement of tax refunds contributes to increasing cost of doing business.

The unsatisfactory protection of Trade Marks and Intellectual Property Rights is routinely cited by respondents as a cause of concern. The survey showed mixed sentiments for ‘Efficient Corporate Governance’, ‘Reliable Insolvency Framework’ and ‘Independent Legal System’ as the ‘Neutral’ rating.

A significantly high proportion of investors continue to have negative sentiments for the ‘Clarity / Fairness of Laws and Regulations’, ‘Contract Enforcement’ and ‘Level Playing Field’, although there is some improvement as compared to 2011 relating to these aspects of doing business.

The survey showed that 2013 rankings on these parameters remain relatively neutral with negative and positive ratings both dropped as compared to 2011 and most respondents have opted for ‘Neutral’ rating.

On the other hand, on a positive note, the survey revealed that the government continues to appreciate by foreign investors, although there is a drop in the rating of both these factors, perhaps due to some delays in expediting remittances on account of the foreign exchange reserves situation at the time of the survey.

This is an important message for attracting new investors to Pakistan.

The survey showed mixed sentiments for ‘Efficient Corporate Governance’, ‘Safety of Foreign Investment’ and ‘Independent Legal System’ as the ‘Neutral’ rating.

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The time taken for ‘Enforcement of Judgment’ casts a negative reflection on our legal system.

Long delays in resolution of disputes and enforcement of judgments, are adding significantly to the cost of doing business and reflects negatively on our legal system.

Average cost incurred for the resolution of a standardized commercial dispute through the courts is 17% of the claim value.

The time taken to resolve a standardized commercial dispute through the courts

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Although the average time is 7.4 years, members have reported cases still pending after more than 15 years for resolution of commercial disputes.

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Long delays in resolution of disputes and enforcement of judgments, are adding significantly to the cost of doing business and reflects negatively on our legal system.

Average cost incurred for the resolution of a standardized commercial dispute through the courts is 17% of the claim value.

The time taken to resolve a standardized commercial dispute through the courts

Unethical approaches for expediting Tax Refunds

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Average cost incurred for the resolution of a standardized commercial dispute through the courts is 17% of the claim value.
On the flipside, the delay in settling tax refunds and timely resolution of issues with government organizations remains a serious challenge to business operations mainly arising due to the devolution of federal subjects to the provinces. These two issues have become major irritants to businesses, as can be noted by the adverse evaluation by 86% of respondents. Delay in settlement of tax refunds contributes to increasing cost of doing business.

The unsatisfactory protection of Trade Marks and Intellectual Property Rights continues to frustrate the business community.

The survey showed mixed sentiments for ‘Efficient Corporate Governance’, ‘Independent Legal System’ as the negative and positive ratings both dropped as compared to 2011 and most respondents have opted for ‘Neutral’ rating.

A significantly high proportion of investors continue to have negative sentiments for the ‘Clarity / Fairness of Laws and Regulations’, ‘Contract Enforcement’ and ‘Level Playing Field’, although there is some improvement as compared to 2011 relating to these aspects of doing business.

Although the average time is 7.4 years, members have reported cases still pending after more than 15 years for resolution of commercial disputes.

The average cost incurred for the resolution of a standardized commercial dispute through the courts is 17% of the claim value.

The unsatisfactory protection of Trade Marks and Intellectual Property Rights, reflecting the liberal and investor-friendly policies which are appreciated by foreign investors, although there is a drop in the rating of both these factors, perhaps due to some delays in approvals for remittances on account of the foreign exchange reserves situation at the time of the survey. This declining trend compared to 2011 should be a cause of concern for the government which needs to look into these matters to ensure a better business climate compared to regional economies.

The survey evaluated Ease of Doing Business on thirteen parameters or Aspects of Doing Business:

- Timely Settlement of Issues with Government Organizations
- Protection of Trade Marks and Intellectual Property Rights
- Clarity / Fairness of Laws and Regulations
- Contract Enforcement
- Level Playing Field
- ‘Safety of Foreign Investment’
- ‘Independent Legal System’
- ‘Efficient Corporate Governance’
- ‘Repatriation of Profit’
- ‘Access to Local Finance’
- ‘Ease of Running a Business’
- ‘Ease of Starting a Business’
- ‘Tax Refunds’

The Survey reveals that Pakistan continues to be ranked favorably for certain aspects of doing business, like the ‘Repatriation of Profit’ and ‘Access to Local Finance’, reflecting the liberal and investor-friendly policies which are appreciated by foreign investors, although there is a drop in the rating of both these factors, perhaps due to some delays in approvals for remittances on account of the foreign exchange reserves situation at the time of the survey. This declining trend compared to 2011 should be a cause of concern for the government which needs to look into these matters to ensure a better business climate compared to regional economies.

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TAX REFUNDS

- The responses are in line with the frustration of members who have been pursuing tax refunds for quite some time and additional bottlenecks created after the enactment of the Provincial Revenue Boards and the change of policy by the FBR whereby sales tax refunds paid to provincial authorities can no longer be automatically offset against FBR related liabilities but requires legal notification of the respective sales tax services.
- Approach for unethical payments related to tax refunds is more or less in line with overall such unsavory practices mentioned in the latter part of the survey which the government needs to address.

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BUSINESS RISK IN PAKISTAN

• The 2013 survey responses, as given in the chart below, should be encouraging for policy makers as the ‘High Risk’ rating for Pakistan as a venue for investment, has reduced to 42% from 54% in 2011.

• Sector wise responses are evenly divided except for Energy sector where the emphasis is less on the high risk and more on medium risk. The low risk classification has been given by some of the respondents from the trading sector.

Important Business Risks Identified

• On a macro level, respondents have identified the Pak Rupee depreciation as a major new risk which gives rise to economic instability, resulting in increased cost of doing business with its consequent impact on various aspects of doing business along with the continuing risk of security, energy and policy implementation.

SECTION II: TOP CHALLENGES

• As in 2011, the two biggest challenges continue to be poor ‘Law and Order’ situation and the ‘Energy’ crisis. More than 50% of respondents ranked poor ‘Law and Order’ in either position 1 or 2.

• Despite the partial resolution of circular debt issue which had a major negative impact on electricity and gas supply as well as costs, participants have still ranked Energy as their second biggest challenge.

• Pak rupee depreciation, against the major currencies in the last few months, is now a serious business issue as this has added significantly to the already high cost of doing business.

• Policy implementation/governance issues remain an area of serious concern.

• Inflation is fueled by a combination of high international oil prices, high level of deficit financing, etc. ‘Cost of Doing Business’ is a matter of great concern for the business community as it raises the possibility of being unable to compete with cheaper imports of products from other countries.

• Respondents were asked for the top challenges over the next 2-3 years as well as the next 4-5 years and responses for both these periods were more or less the same.
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GOVERNMENT POLICIES

- A significant majority is only partially satisfied with the current business policies. It may however be noted that the survey was conducted during the first three months of the PML-N government.

- Policy implementation is considered to be a serious issue negatively impacting foreign investors. An overwhelming majority of the respondents recommend strict and timely enforcement of the existing policies.

SECTION III: GOVERNANCE

- An overwhelming majority of foreign investors believe that the Government is aware of the problems faced by the business community, but still lacks the political will or ‘seriousness’ required to tackle these issues.

- The Government does not seem to have gained full investor confidence as respondents feel that the authorities are unable to resolve investor issues either due to lack of capacity or financial constraints.

**Figure 7**

Are you satisfied with present business policies of the government?

- Yes: 59%
- Partly: 36%
- No: 5%

Are you satisfied that these policies are implemented effectively and timely?

- Yes: 41%
- Partly: 56%
- No: 3%

**Figure 8**

Experiences with the Government of Pakistan and its functionaries—is the Government AWARE of issues facing investors/business?

- Yes: 82% (2013), 82% (2011)
- No: 18% (2013), 18% (2011)

Serious in resolving the issues facing investors/business?

- Yes: 33% (2013), 9% (2011)
- No: 67% (2013), 91% (2011)

Capable of resolving the issues facing investors/business?

- Yes: 57% (2013), 47% (2011)
- No: 43% (2013), 53% (2011)
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AWARE of issues facing investors/business

- 2013: 57%
- 2011: 43%

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- 2013: 9%
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OBSTACLE TO BUSINESS

Change Vs. Improvement in Implementation of Existing Policies

- The government’s ability to implement existing policies and regulations continues to be a major issue, as reflected from the feedback given below.
- However, foreign investors believe implementation has improved over the last two years as borne out by the negative perception reducing from 79% in 2011 to 66% in 2013.

However the flipside is that more than one-third of the respondents, 13% higher than 2011 have indicated that the government should change existing policies to introduce a range of institutional and economic reforms aimed at boosting productivity and growth, leading to improvement in the country’s business competitiveness and promoting private sector development.

INVESTOR CONFIDENCE

- The survey results show that the foreign investor is now more optimistic and confident to invest in Pakistan. The government should take this opportunity to improve governance, review and streamline policies negatively impacting investors and take other actions to improve the international perception of Pakistan thereby attracting new FDI in sunrise industries like energy, corporate farming, agro-based industry, healthcare, IT and medical research etc.
- More than 85% responses are from FMCGs, financial services and energy sectors.
- Foreign investors seem to be mostly positive that the present government will introduce an effective policy framework to tackle the current economic and administrative challenges with consensus of all stakeholders.
- Although there is an improvement regarding the perception of the involvement of key stakeholders in government decision making, a significant minority still feels that the government does not involve key stakeholders.
- In order to provide policy reforms and advocacy support to the government, all respondents strongly felt the involvement of OICCI in policy and regulatory matters for which the Chamber is continuously engaged with the government for OICCI representation on various regulatory boards.

Change in Existing Policies

Improvement in Implementation of Existing Policies

13% higher than 2011

79% in 2011

66% in 2013

Policy Implementation

More positive in doing business in Pakistan

Would you now recommend new FDI to Pakistan

83%

75%
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Figure 9

Figure 10

Policy Implementation

79%
75%
72%
66%
57%
55%
52%
49%
48%
45%
43%
41%
34%
25%
22%
21%
20%
17%
13%
11%
8%
In developing countries like Pakistan, the Government plays a key role in the business climate. The results give somewhat mixed reactions for the very important Ministry of Commerce. The Planning and Development ministry which was previously operating as a regulatory body titled Planning Commission of Pakistan has received same rating as in 2011. The Ministry of Environment also gets the same rating as in 2011. The Ministry of Energy also receives a high rating. The Ministries of Finance, Interior, and Power' and 'Interior' as compared with the situation in 2011 which can be noted from the decline in unsupportive rating for all these ministries. The performance of 15 Regulatory Bodies were evaluated in the survey, taking into account their relevance and importance in the functioning of businesses. The results reveal a mixed perception, where most of the regulatory bodies were perceived to be neither supportive nor unsupportive. The negative response for 'Federal Board of Revenue (FBR)' seems to be on account of the ongoing issue of delay in refund claims involving many members, as well as the cumbersome and detailed documentation process required before claims are allowed. Similarly, the long unresolved conflicts of interests between the federal and provincial revenue boards have negatively impacted the business community and is reflected in the responses given by the members for the 'Sindh Revenue Board (SRB)' and 'Punjab Revenue Authority (PRA)'. The Energy sector is generally supportive towards the energy/power regulatory bodies perhaps due to a combination of settlement of exited debt within a short time after the new government took over and also because the government is seen as focusing on solution of the energy crisis at the highest level.

However, SECP and SBP fared better than other regulatory bodies with over 40% of respondents showing satisfaction with their performance. The negative response for Federal Board of Revenue (FBR) seems to be on account of the ongoing issue of delay in refund claims involving many members, as well as the cumbersome and detailed documentation process required before claims are allowed. Similarly, the long unresolved conflicts of interests between the federal and provincial revenue boards have negatively impacted the business community and is reflected in the responses given by the members for the ‘Sindh Revenue Board (SRB)’ and ‘Punjab Revenue Authority (PRA)’.
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The Planning and Development ministry which was previously operating as a governmental body titled ‘Planning Commission of Pakistan’ has received same rating as in 2011. The Ministry of Environment also gets the same rating as in 2011.

The number of initiatives being taken by the different ministries after the setting-in period may change in the coming months leading to an altogether different rating.

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In general the foreign investor confidence level declined significantly for the Energy sector is generally supportive towards the energy/power sector. The government is seen as focusing on solution of the energy crisis. It may be noted that overall the highest ratings were in the neutral column, and 40% of respondents were perceived to be neither supportive nor unsupportive. Perhaps this can be attributed to major tax matters like tax refunds, not introducing new reforms for broadening tax net and unresolved conflicts of interest between the federal and provincial revenue boards.

The Energy sector is generally supportive towards the energy/power regulatory bodies perhaps due to a combination of settling of arrear debt within a short time after the new government took over and also because the government is seen as focusing on solution of the energy crisis at the highest level.

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The Drug Regulatory Authority of Pakistan (DRAP) has received a big negative marking mainly due to the fact that despite the setting up of DRAP, there are no pharmaceutical industry engagement with the government, the regulatory framework was missing at the time of this survey.

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The investment climate is primarily based on fiscal policies of the Government as well as relations with trading partners. The graph depicts the perception of 3 trade policies and 3 fiscal measures:

TRADE POLICIES

Trade with India
- It seems that some members have changed their opinion about trade with India perhaps due to rigidity on the Indian side about removal of tariff and non-tariff barriers. The current survey results indicate that members are not so keen for trade with India as compared to the responses of 2011, showing a negative drop in all the ratings. The negativity is also because the cost of doing business in India is relatively lower in many business sectors than in Pakistan where costs have gone up significantly in the recent past.
- However on the whole, OICCI members believe that MFN status should be granted to India but the Government should ensure even handed responses from the Indian side also.
- Provincial sales tax has received a significant negative rating from the FMCG, Financial services and some other sectors.

Afghan Transit Trade
- The survey shows mixed responses with majority of the members adopting a neutral position.

FISCAL MEASURES

Taxes and Levies
- Majority of respondents perceive that the 2013 Provincial Sales Tax Acts on Services enacted by the Punjab and Sindh provinces, have an adverse impact on their business. 69% respondents have strongly criticized provincial taxes mainly due to the coordination and harmonization issues as the positions taken by the federal and provincial revenue authorities are in conflict with each other.
- A clear majority of respondents state that an increase of 1% in General Sales Tax has had an adverse impact on inflation, while 27% hold a neutral perspective.
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SECTION IV: TRADE & FISCAL POLICIES

Respondents Satisfaction with Tax broadening measures

<table>
<thead>
<tr>
<th>Tax Measures</th>
<th>Yes</th>
<th>No</th>
<th>Neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provincial Sales Tax Act on Services 2013</td>
<td>42%</td>
<td>27%</td>
<td>31%</td>
</tr>
<tr>
<td>Afghan Transit Trade</td>
<td>43%</td>
<td>36%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Almost all of the OICCI members affected by the 18th amendment in their day to day business have shown disappointment with the delay in process of the switch of certain regulatory matters from the federal government to the provincial governments.
- Currently there are serious coordination issues which have not been streamlined thereby impacting business operations. For example, lack of coordination between federal and provincial revenue authorities has held up sales tax refunds and created cash flow problems for several OICCI member companies.
- In the pharmaceutical sector, even after the delayed formation of the Drug Regulatory Authority of Pakistan, important policy framework on pricing, drug registration and contract manufacturing has not yet been finalized.
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IMPERATIVE OF 18TH CONSTITUTIONAL AMENDMENT ON BUSINESS

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SECTION V: OPERATIONAL/ INVESTMENT PLANS AND SELECTED FINANCIAL NUMBERS

GROWTH IN THE NEXT 2-3 YEARS

- Despite the environmental and energy challenges, as well as the ever-increasing cost of doing business most respondents remain optimistic about future growth, as clearly shown in the below figure. The perceived impact of inflation and its relationship on different Profit & Loss lines is also discernible with 83% respondents more positive on sales/revenue growth and only 68% on profitability.

- As a consequence to the expected revenue growth, 52% of the respondents expect increase in their headcount to meet the growth targets in the coming years.
- There was however a small 4% minority who expect reduced revenues while 17% perceive lower profits.
- Lower profitability responses are mainly from the Pharmaceutical sector but also include some members from the Oil, Energy and Automobile sectors.

OICCI MEMBERS CONTRIBUTION TO THE ECONOMY IN THE NEXT 1-5 YEARS

- Increased expectation of revenue and profitability has translated into increased contribution to the National economy by the OICCI members, sending positive signals to all stakeholders, as well as potential new investors.

Operation Plans

- More than half of the respondents plan to expand their operations in the short and medium run, while a sizeable percentage plans to maintain the status quo. Only one member from the trading sector has indicated that it may wrap up operations in the near future. Foreign investors continue to exhibit their confidence in the country and value its potential despite the current macro-economic and socio-political climate.

- Although Foreign Direct Investment (FDI) inflow to Pakistan has reduced significantly in the last few years, as per reported official figures, OICCI members however, have indicated a bullish outlook as far as their own operations in Pakistan are concerned and continue to invest from retained earnings as well as new equity injection.

- The Government should take this positive response and match it with concrete policy steps to improve the business environment through effective and regular public-private interaction.

- A significant majority of respondents from the FMCG’s and Financial Services sectors have indicated expansion of operations and new investment plans.

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- Lower profitability responses are mainly from the Pharmaceutical sector but also include some members from the Oil, Energy and Automobile sectors.

OICCI MEMBERS CONTRIBUTION TO THE ECONOMY IN THE NEXT 1-5 YEARS

- Increased expectation of revenue and profitability has translated into increased contribution to the National economy by the OICCI members, sending positive signals to all stakeholders, as well as potential new investors.
NEW INVESTMENTS

While the investment plans are encouraging, the amount of investment per company is still lower than what is needed to stimulate economic growth. Nearly 30% of the respondents foresee investing between US$ 25 to 50 million or more over the next 5 years. The collective total investment indicated by the respondents is roughly US$ 3 billion within the next 5 years. If this materializes it is likely to contribute somewhat to the forecasted GDP growth and to stimulate employment opportunities.

- Although respondents have indicated fresh foreign equity injection for expanding their business, majority of them intend to finance new investments from retained earnings.
- Majority of the FMCG’s and Financial Services sectors respondents have indicated more investments as compared to the corresponding past period while 33% respondents from the pharmaceutical sector have indicated a decrease.

Is the planned new investment more or less than in the past 1-3 years

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>In the next 1-3 years</th>
<th>In the next 4-5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US$ 5 million</td>
<td>24%</td>
<td>45%</td>
</tr>
<tr>
<td>From US$ 10 to 25 million</td>
<td>29%</td>
<td>19%</td>
</tr>
<tr>
<td>From US$ 25 to 50 million or more</td>
<td>19%</td>
<td>54%</td>
</tr>
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</tr>
</tbody>
</table>

SELECTED FINANCIAL INFORMATION

- The above numbers are based on members’ financial statements for the year ended 31st December 2012 or 30th June 2013, respectively.
- Levies paid include income tax, sales tax, custom duties and excise duties.
- These numbers are based on the information given by the participating companies as well as numbers taken from published financial data of member companies.
- Several OICCI members’ paid-up capital is 100% owned by foreign shareholders.
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<th>2013 Same</th>
<th>2013 Less</th>
<th>2013 More</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US $ 10 million</td>
<td>54%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>From US $ 10 to 25 million</td>
<td>45%</td>
<td>14%</td>
<td>22%</td>
</tr>
<tr>
<td>From US $ 25 to 50 million or more</td>
<td>11%</td>
<td>3%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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- Levies paid include income tax, sales tax, custom duties and excise duties.
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RESEARCH METHODOLOGY

The 2013 Perception Survey (Quandamco) focused on five broad areas, within which several issues of interest to current members and potential investors were addressed. These were:

I. Business Environment
II. Top Challenges
III. Governance
IV. Trade and Fiscal Policies
V. Operational/Investment Plans and Selected Financial Numbers

Several features of the Perception and Investment survey 2013 are different than the previous version, as it incorporates new developments impacting the corporate sector since the last survey was done in 2011.

The Survey’s findings are represented in percentages which are easy to follow and determine trends. Complimentary illustrations are provided to gain insight into various perceptions at a glance. Responses to questions requiring respondents to rank options on a scale have been aggregated using the weighted average method. The resulting data is tabulated to provide a summary and a quick interpretation of results.

As in the previous surveys, the 2013 survey provides a variety of response options for different questions in order to elicit responses which give general positive, negative or neutral positions on various aspects of the business environment and governance in the country. For questions invoking a range of response options, including those that may not be directly relevant to a particular member, respondents were asked to indicate options relevant to their company and/or industry. Where applicable and significant, sector-wise statistics are presented to provide further insight into broad indicators.

The chemical and fertilizer sector refers to the OICCI members which produce fertilizers, pesticides, paints and cement. Likewise, the energy sector refers to OICCI members including oil and gas companies, including oil marketing companies (OMC), independent power producers (IPP) and exploration and production (E&P) companies. Financial services, represents members who are engaged in banking and non-banking financial services such as leasing, insurance, asset management and other related services.

ANNEXURE

LIST OF PARTICIPATING COMPANIES – TOTAL 112

PHARMACEUTICAL
1. Al kahar Distribution Limited
2. Alkem Laboratories Limited
3. Akorn Nigeria Limited
4. Astra Zeneca Pakistan Limited
5. Aurobindo Healthcare Limited
6. Bayer Pakistan (Private) Limited
7. Biogen Idec Pakistan Limited
8. Boehringer Ingelheim Pakistan Limited
9. Bristol-Myers Squibb Pakistan Limited
10. Cipla Pakistan Limited
11. Cipla Pakistan Limited
12. DSM Nutritional Products Limited
13. Novartis Pharma Pakistan Limited
14. Otsuka Pakistan Limited
15. Pfizer Pakistan Limited
16. Roche Pakistan Limited
17. Sanofi Aventis Pakistan Limited
18. Shire Pakistan Limited
19. Wyeth Pakistan Limited

CHEMICALS / PESTICIDES / FERTILIZERS / PAINTS / CEMENT
1. ACE Insurance Limited
2. Al Baraka Bank Pakistan Limited
3. Bank Alfalah Limited
4. Dawood Hercules Corporation Limited
5. Johnson and Phillips Pakistan Limited
6. KSB Pumps Company Limited
7. Kansai Paints (Private) Limited
8. Linde Pakistan Limited
9. Kufpec Pakistan Holdings B.V.
10. Mitsubishi Corporation
11. Mitsubishi Corporation
12. Mitsubishi Corporation
13. Mitsui & Company Limited
14. Novartis Pharma Pakistan Limited
15. P&G Pakistan (Private) Limited
16. NIB Bank Limited
17. NBP Fullerton Asset Management Limited
18. Pak Oman Investment Company Limited
19. Orix Leasing Pakistan Limited
20. Standard Chartered Bank Pakistan Limited

TRADING AND OTHER SERVICES
1. Arabian Sea Enterprises Limited
2. DHL Global Forwarding Pakistan (Private) Limited
3. Gray MacKenzie Restaurants International Limited
4. IFFCO Pakistan (Private) Limited
5. James Finlay Limited
6. Nestle Pakistan Limited
7. Procter and Gamble Pakistan Limited
8. Rafhan Maize Products Company Limited
9. Telenor Pakistan (Private) Limited
10. TPL Telecommunication Limited
11. United Energy Pakistan Limited
12. United Overseas Bank Limited
13. Zenith Bank Plc

IT AND COMMUNICATION
1. APLA Pakistan Limited
2. AVI Communications Limited
3. Byco Petroleum Pakistan Limited
4. Cisco Pakistan Limited
5. Coca-Cola Beverages Pakistan Limited
6. DHL Global Forwarding Pakistan (Private) Limited
7. Engen Corporation Limited
8. Flutter Entertainment (UK) Limited
9. Gillette Pakistan Limited
10. Johnson and Phillips Pakistan Limited
11. Kot Addu Power Company Limited
12. Linde Pakistan Limited
13. Pak Arab Pipeline Company Limited
14. Pakistan Petroleum Limited
15. Pakistan Refinery Limited
16. Rousch Pakistan Power Limited
17. Siemens Pakistan Engineering Company Limited
18. Singer Pakistan Limited
19. Teradata Pakistan (Private) Limited
20. Telenor Pakistan (Private) Limited

OIL / GAS / ENERGY
1. Attock Refinery Limited
2. Byco Petroleum Pakistan Limited
3. ENI Pakistan Limited
4. Fauji Oil Terminal and Distribution Company Limited
5. General Electric International Operations Co. Inc.
6. GSK Pakistan Limited
7. GlaxoSmithKline Pakistan Limited
8. ICI Pakistan Limited
9. Kufpec Pakistan Holdings B.V.
10. Kansai Paints (Private) Limited
11. KSB Pumps Company Limited
12. Linde Pakistan Limited
13. Mitsubishi Corporation
14. Mitsui & Company Limited
15. Nalco Pakistan (Private) Limited
16. Nippon Paint Pakistan (Private) Limited
17. OMC Ltd
18. Orix Leasing Pakistan Limited
19. Pak Oman Investment Company Limited
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SECURITY SERVICES
1. Arabian Sea Enterprises Limited
2. DHL Global Forwarding Pakistan (Private) Limited
3. Gray MacKenzie Restaurants International Limited
4. IFFCO Pakistan (Private) Limited
5. James Finlay Limited
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7. Procter and Gamble Pakistan Limited
8. Rafhan Maize Products Company Limited
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SHIPPING AND AIRLINES
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RESEARCH AND DEVELOPMENT
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