



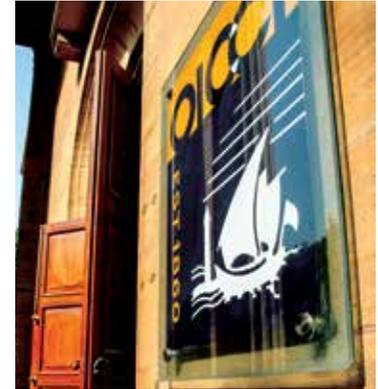
2019

PERCEPTION AND INVESTMENT SURVEY



1.32	62.39	62.45	90.2
1.96	92.94	92.96	60.9
1.06	62.26	62.31	60.9
0.25	19.19	19.20	18.8
0.19	15.52	15.53	15.1
0.58	55.00	55.01	54.04
1.08	114.69	114.74	113.14
0.22	21.64	21.66	21.38
0.78	83.16	83.17	82.13
1.01	115.30	115.33	113.53
1.04	5.15	5.16	5.10
1.41	38.96	38.98	37.93
1.76	84.45	84.48	83.26
.57	105.05	105.07	103.75
.54	72.53	72.54	71.61
86.15			





Overseas
Investors
Chamber of
Commerce
and Industry



OLDEST BUSINESS CHAMBER IN SOUTH ASIA

Established in 1860 as Karachi Chamber of Commerce, the present name, Overseas Investors Chamber of Commerce and Industry (OICCI), was adopted in 1968. The Chamber serves as the national point of reference for foreign investors in Pakistan.

Scan and get instant
access to the latest
OICCI news and
updates on your
mobile device.



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 investors and the country.

Mission

- To assist in fostering a conducive, open and equitable business environment in Pakistan
- To facilitate the transfer of best global practices to Pakistan
- To enhance the image of overseas investors in Pakistan and of the country abroad

ON 13th NOVEMBER 1927
THIS BUILDING WAS OPENED BY
HIS EXCELLENCY
THE RIGHT HONOURABLE
BARON IRWIN OF KIRBY UNDER
G.M.S.I. G.M.I.E.
VICEROY AND GOVERNOR GENERAL
OF INDIA



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OICCI member companies come from all over the world, as listed below.

USA	27	MAURITIUS	02
UK	25	QATAR	02
THE NETHERLANDS	23	BAHRAIN	02
JAPAN	15	PANAMA	01
UAE	15	BRITISH VIRGIN ISLAND	01
SWITZERLAND	12	RUSSIA	01
GERMANY	12	OMAN	01
SINGAPORE	08	SOUTH AFRICA	01
FRANCE	07	BAHAMAS	01
HONG KONG	04	IRAN	01
ITALY	04	BRUNEI	01
CHINA	04	LIBYA	01
SAUDI ARABIA	03	PHILIPPINES	01
MALAYSIA	03	SWEDEN	01
KUWAIT	03	KOREA	01
LEBANON	03	HUNGARY	01
DENMARK	02	OTHERS	08

Disclaimer

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



Introduction

About us

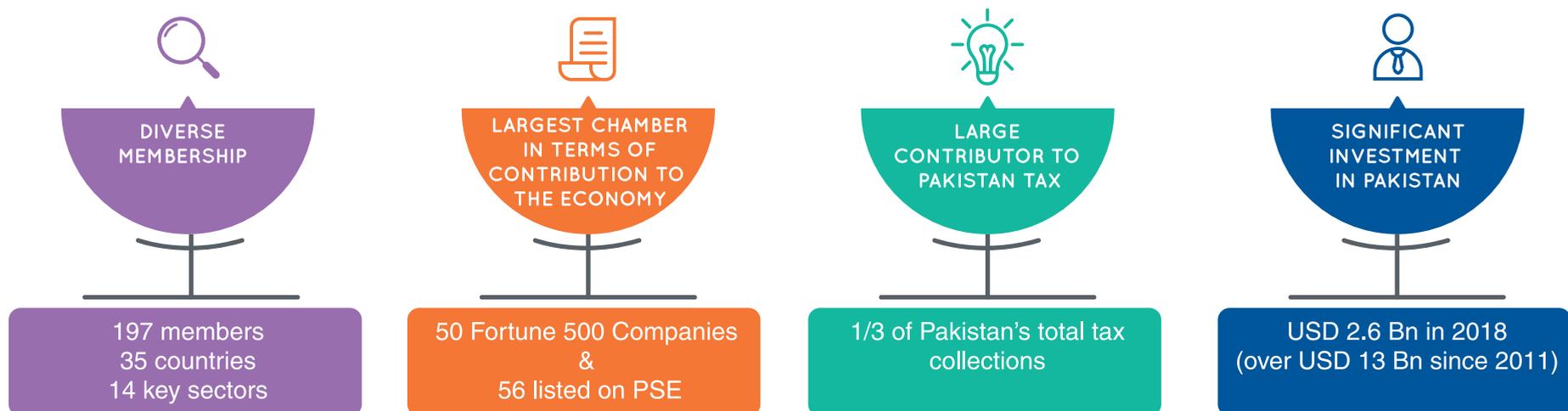
The OICCI is the collective voice of all major foreign investors conducting business in Pakistan. Established over 159 years ago in 1860, primarily as a business chamber for foreign investors, the role of the OICCI has been widely enhanced and presently the chamber is engaged in a number of diversified activities. Besides its primary function to promote and protect the existing foreign investment in the country and to attract new foreign investors, the chamber's activities contribute significantly to supporting commerce and industry across Pakistan.

Most international trade delegations, who visit Pakistan, interact with OICCI to get an independent view of the business and investment climate in the country. Incentives offered by the government to investors, experience of OICCI members, their success stories, updated results of the Chamber's business and security surveys are always highlighted at OICCI and international investment forums focusing on Pakistan.

OICCI releases new publications and policy statements on matters of interest to investors on subjects like Taxation, Energy,

Digitization, Intellectual Property Rights, Free Trade Agreements and other policy matters related to the critical interest of businesses. The annual OICCI Taxation Proposals, which include specific points on broadening the tax base and documentation of the economy are widely appreciated by country's federal revenue collection body, FBR and the provincial revenue authorities, as well as other stakeholders, for their comprehensive and progressive coverage of several issues.

The OICCI Perception and Investment Survey is done every two years. The last survey was done in 2017.



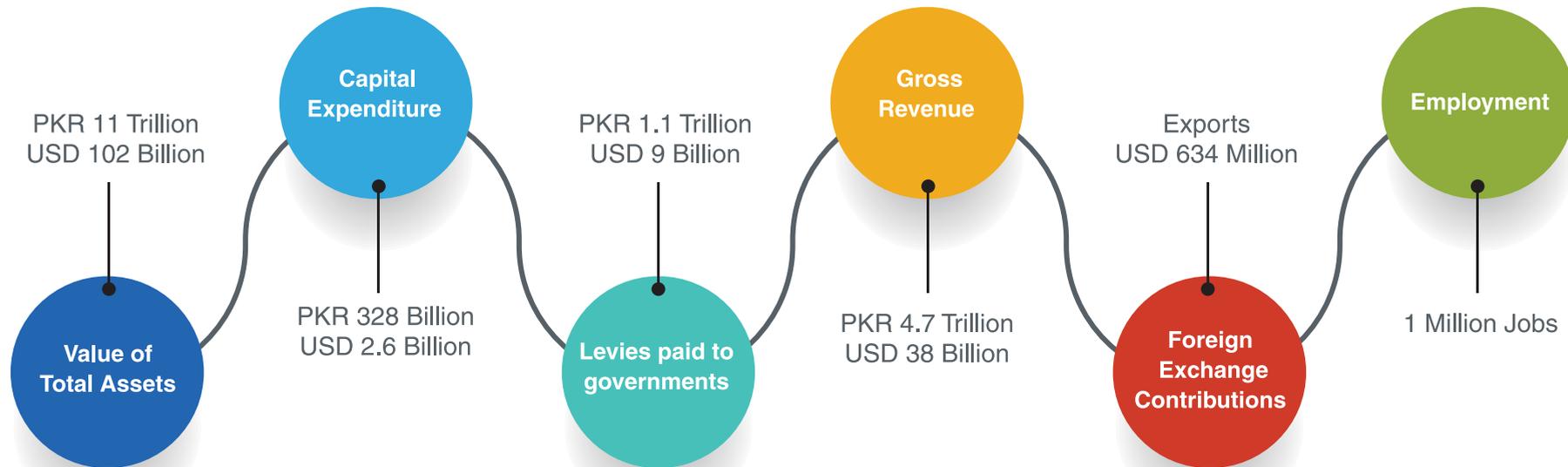
Activities

Significant activities in which the OICCI is engaged include, inter-alia, acting as catalyst to attract Foreign Direct Investment, enforcement of Intellectual

Property Rights, creating a level playing field for all investors in the areas of taxation, tariffs protection, international quality standards, physical safety and security of member companies' employees

and assets and transfer of best global technology and practices in business to Pakistan by leveraging world class expertise of OICCI members for the benefit of all investors and the country.

OICCI MEMBERS – 2018 CONTRIBUTION TO ECONOMY



The OICCI remains regularly engaged with various stakeholders and conducts research and surveys to seek first hand assessment of the business operating environment, including constraints to growth and investment. The chamber is actively engaged with the key stakeholders, on a one-to-one basis, as well as group activities, to progressively narrow the gap between policies and their implementation, including making constructive recommendations to policymakers for improving the business and investment

landscape in the country. Being the collective voice of approximately 200 large foreign investors in Pakistan, the chamber has a critical role to play in ensuring that policymakers are aware of, and sensitive to, the changing business environment with new challenges and opportunities, both, within the country and in the region. This interactive relationship is critical for facilitating retention of the existing foreign investors and in attracting significant new FDI, in competition with other regional countries.

In summary, OICCI assists in creating an investment friendly, forward looking and equitable business environment in Pakistan. The chamber is regularly engaged with the relevant government authorities, including those in the provinces, and various regulatory bodies to formulate business-friendly policies which serve as a reference point for foreign investors.

Recent research publications/surveys

Research-based studies for formulation of policy framework

- Perception and Investment Survey
- Business Confidence Index Survey
- Taxation Proposals
- Security Survey
- CSR Report
- IPR Manual “Evolution of Intellectual Property Rights in Pakistan: OICCI Perspective”
- Intellectual Property Rights Survey
- Recommendations on ‘Ease of Doing Business’
- Survey on foreign Remittances
- Energy Report 2019: Challenges, Opportunities & Policy Recommendations
- Gender Equality Survey 2019

Purpose of the survey

The Perception and Investment Survey supports the core activities of OICCI and serves as an independent benchmark for all stakeholders, including existing and potential foreign investors, the Government of Pakistan, the provincial governments, various regulatory bodies, the media and relevant diplomats and international agencies like World Bank, IFC and others with a keen interest in continuation of business in the country. The survey provides a fact based feedback from the existing investors on various aspects of doing business in Pakistan besides highlighting the potential of the country,

and issues which require corrective actions to create a more conducive business and economic climate of the country.

The informed viewpoint coming out of this survey, has the potential to lead, and it often does, to meaningful debate in various critical forums, enabling appropriate policy reforms for the betterment of the Pakistan economy.

The Perception and Investment surveys are conducted by the OICCI every two years. The present survey was preceded by one carried out towards the end of 2017.

Scope of the Survey

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

In line with accepted norms of survey patterns, the questionnaire of this survey has been designed with a strong link to the previous survey to enable comparisons between two survey points. However, the 2019 Perception Survey questionnaire was modified to seek specific input on current business issues as well as regulatory, economic and socio-political developments impacting OICCI members directly or indirectly. The latest survey, for instance, includes various questions related to CPEC, impact of the current economic situation on the businesses, digitalization and changes introduced by the FBR in last Finance Acts for broadening the tax net

and documentation.

Readers may note that this survey is a consolidated view of the existing leading foreign investors on various aspects of doing business in Pakistan. The Chamber expects that the survey findings, will be taken seriously by policy makers and regulators to make Pakistan an even more attractive FDI destination inspite of stiff competition from other regional countries. For the past few years Pakistan is seriously lagging behind in attracting its due share of FDI. This OICCI Perception and Investment Survey and similar other regular research works are useful reference points for policy makers to get a real feel of the mindset of foreign investors to appropriately improve the policy framework and its judicial implementation to encourage higher level of investment, including FDI, in the country.

OICCI is hopeful that the publication of the Perception and Investment Survey 2019 results and sharing them with the federal and provincial governments, regulatory bodies and other key stakeholders will not only provide direction towards improving investment climate but also help contribute towards taking actions to further improve Pakistan’s ranking in the World Bank’s ‘Ease of Doing Business’ parameters, which improved from 136 to 108 out of 190 countries in the last WB survey 2020 released in October 2019.

EXECUTIVE SUMMARY

The Perception and Investment Survey 2019 (PIS) was conducted between August and October 2019, reflecting the latest sentiments and views of foreign investors on key aspects of doing business in Pakistan. The results of this survey present an array of insights, shedding light on both the concerns on the current business environment, as well as the confidence of OICCI members on the growth potential of the country. These perceptions are significant in understanding the current and future plans of the leading foreign investors, members of OICCI, and in attracting sizeable new FDI in line with the potential of the country.

The past twelve months have been quite challenging due to some drastic, but necessary, economic disciplinary measures taken by the Government of Pakistan. On top of over 30% devaluation of the Pak Rupee, the central bank's discount rate increased by over 100% from 6.5% in July 2018 to 13.25% in Q3 2019, has triggered a jump in borrowing rates and inflationary cost increases. The GOP also introduced, in mid-2019, some bold documentation initiatives to broaden the tax base, like introduction of CNIC on purchase of goods and services at the level of retailers, which were necessary but

seriously dented the overall business confidence and slowed down the economic activity. This challenging business environment during most of 2019 is duly reflected in the feedback given by our members in this survey.

Whilst there is dissatisfaction amongst respondents with several areas of doing business, an overwhelming majority of respondents (about 75 percent) stay positive, indicating willingness to recommend new FDI in Pakistan to their parent companies. The survey shows that on a number of business climate parameters foreign investors remain positive, going forward, on the performance of their respective business entities in Pakistan.

OICCI members believe in Pakistan and are confident the authorities will soon be laying out policy measures to boost the

economic potential of the country, make it easier for doing business and to attract substantially larger amount of FDI. The case for business growth potential and opportunities in Pakistan is supported by over 66 percent of survey respondents indicating their plans to make new investments, out of which 7 out of 10 respondents plan to invest more or similar amounts over the next 1 to 5 years, as compared to the investments they made in the previous corresponding period. Moreover, 50 percent respondents plan to increase their employment base. The planned investment in business and human capital is expected to boost both revenue and profitability, as 68 percent of the respondents expect increased sales and 47 percent expect their profits to rise. These numbers should be widely projected by the authorities to attract new foreign direct investment.

Total investments indicated by respondents' amount to approximately US\$ 2.5 billion only, while OICCI members invested US\$ 2.8 billion in the year 2018 alone (OICCI survey, June 2019). It has been a learning from the past that actual investments always surpass the projected investments by the OICCI members. Members have already invested well above US\$ 5.5 billion in the last 2 years, and US \$ 13 billion in the past 7 years, beating their own estimates from the previous such estimates by a wide margin.

OICCI members continue to view some areas where the Government of Pakistan and its functionaries are directly responsible, such as delays in settling tax refunds, poor coordination between federal and provincial governments, as serious challenges in doing business in Pakistan. These, along with the current state of the economy in the face of new measures, may explain why the foreign investor's

perspective of doing business has seen a major decline over 2017 in this OICCI members' survey.

For existing foreign investors 'Policy implementation' and governance issues continue to remain an area of serious concern. A number of companies belonging to the FMCG, Food and Healthcare sectors have identified counterfeiting, illegal imports and dumping of cheaper imported products as major risks to their businesses. The performance of regulatory bodies also reveals a mixed perception. One of the major improvement, during the past two years, relates to highly improved security situation, which is no more among the top five concerns of the foreign investors. The rapid increase in interest cost, significant devaluation of the Pak Rupee and increasing tax burden and gap in the policy implementation, as mentioned above, are part of the five key concerns of the investors. The risk profile of the country as assessed by members remains in the medium risk category. Majority of the OICCI members have positive views of the CPEC projects.

The survey respondents have indicated that the federal government is now more engaged in addressing their business concerns, whereas the provincial government of Punjab and Sindh have been rated as lacking in getting

meaningfully engaged with the members. About two third of the respondents feel that the federal government understands the key issues faced by the business community, and 70% believe the government is capable of providing redress, which is an increase of 10%, on both counts as compared to the 2017 survey. Similar to the previous surveys, members have strongly advocated on the need for a transparent accountability of departments as well as functionaries, timely corrective action for policy improvement and regular interaction with investors for proactive resolution of issues.

OICCI is fully cognizant of its role in promoting a conducive business environment, and will stay engaged with the federal and provincial governments to emphasize that the negative perceptions can be addressed through good governance, supported by predictable policy framework and consistent and transparent implementation of policies. OICCI members remain key stakeholders in the economic growth of Pakistan and are committed to give their full support to the country to get more than its due share of the FDI coming to the region.

We thank the member companies for their active participation and acknowledge the support of the OICCI Managing Committee, Media Relations and Communications subcommittee and the secretariat for the compilation, analysis and publication of this survey. The results of this survey are shared with OICCI members, policy-makers, media, foreign trade delegates and other external stakeholders and we hope that the concerned authorities take, and continue to remain focused, on further measures for improving the business climate to encourage enhanced level of FDI inflow and investment in the country.



Shazia Syed
President



M. Abdul Aleem
CE/Secretary General



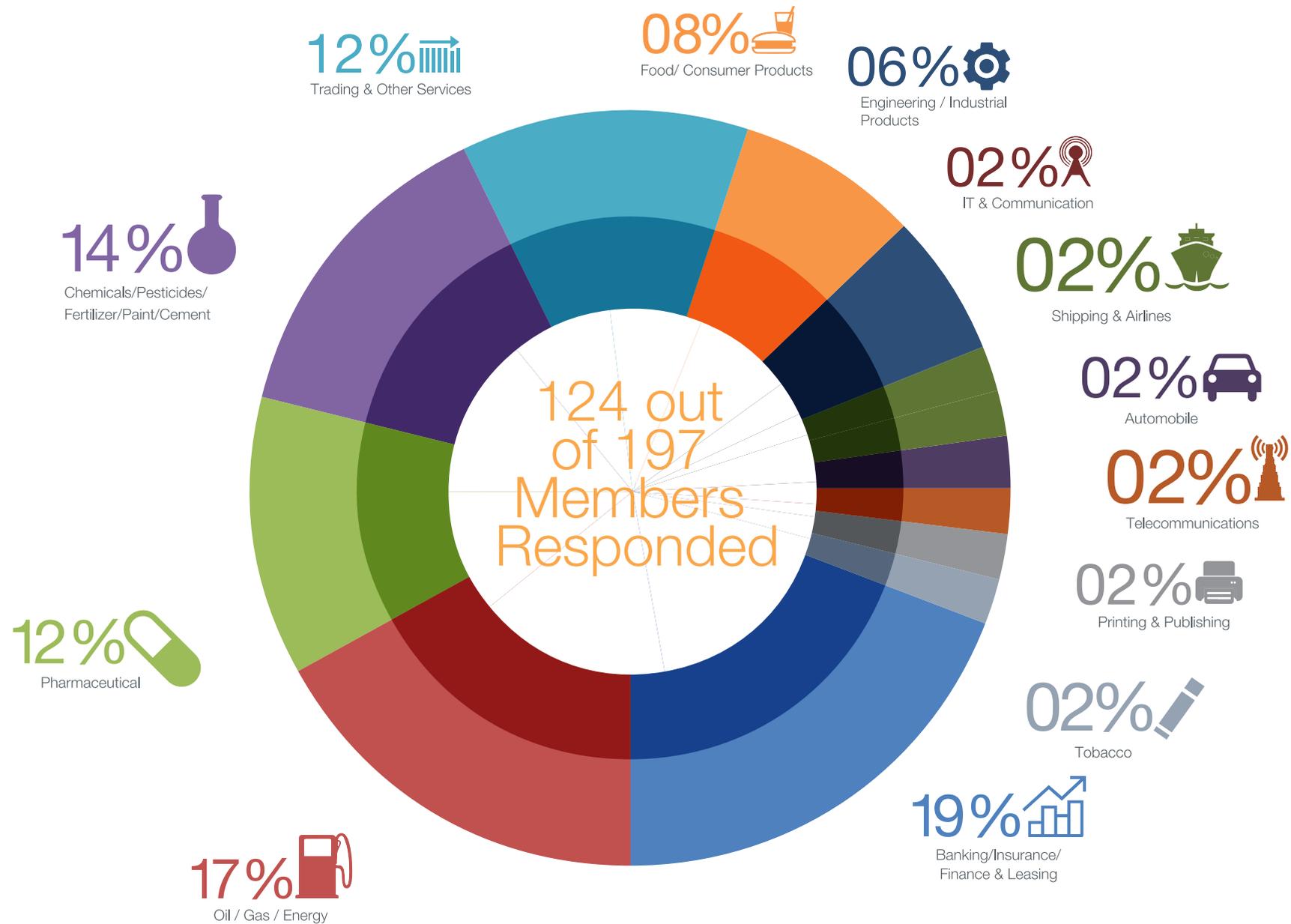


RESPONDENTS' PROFILE

124 or 63% of the members (including some of the largest companies operating in Pakistan) responded to the survey, out of the 197 OICCI members, at the time of the survey. All the 14 key sectors of the economy in which our members operate are represented in this report.

Since the results are based on feedback from a significant majority of OICCI members operating in different business sectors, the survey represents the collective voice of foreign investors, currently operating in Pakistan, and of the business community at large.

Figure 1: Sector-wise participation of the survey respondents



ANALYSIS OF FINDINGS

SECTION I: BUSINESS ENVIRONMENT

The survey sought members' views, after consulting their parent company, on the "Investment and Operating Conditions" (IOC) in Pakistan in comparison to ten regional countries. The responses are given below. The stats in green represent members' perception that Pakistan offers a better business environment than the country against which it is being compared while orange being the opposite. For example, 33% of the members find Pakistan IOC better as compared to those in Sri Lanka whereas 22% state IOC in Sri Lanka are better.



EASE OF DOING BUSINESS (EODB) – A COMPARISON WITH REGIONAL COUNTRIES

Figure 2(a): Responses in 2019

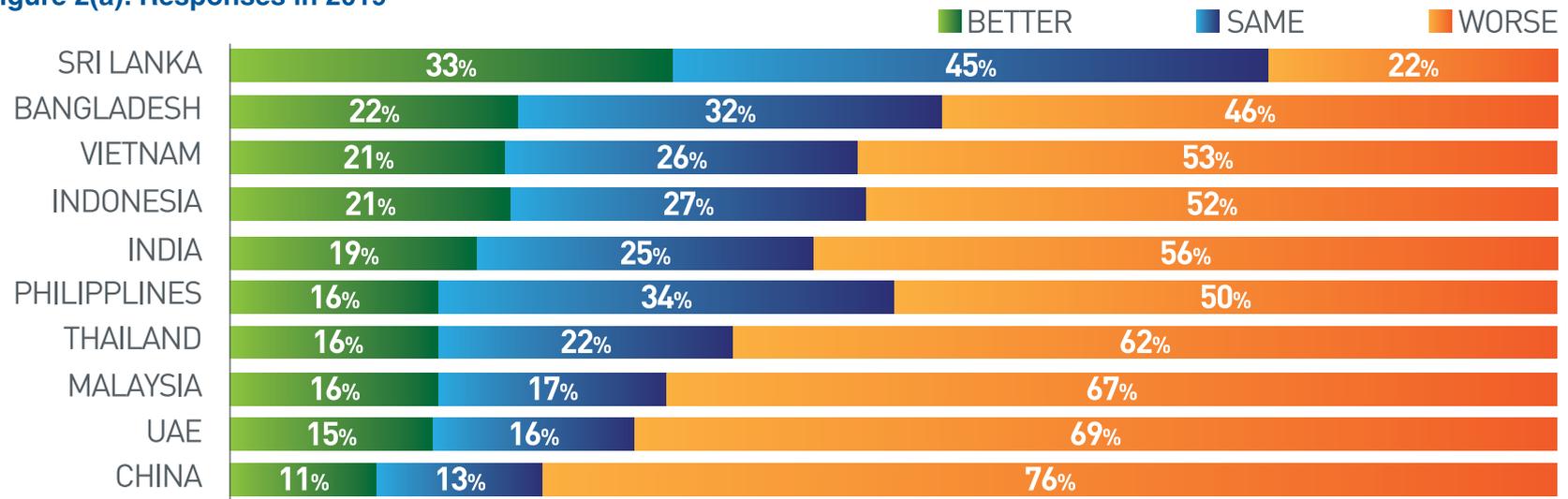
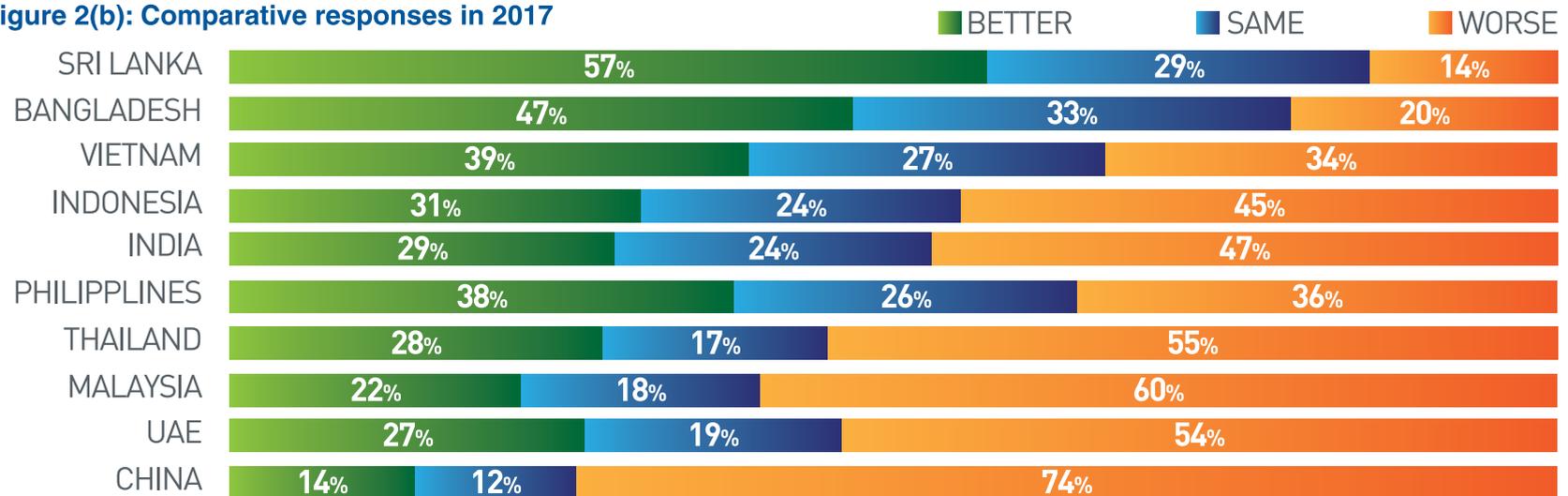


Figure 2(b): Comparative responses in 2017



- Foreign investors' sentiments about the investment climate in Pakistan have declined significantly as compared to the 2017 survey. This can be noted from the fact that there is a drastic increase in 'Worse' ratings of Pakistan in respect of IOC versus all the regional countries included in the survey.
- On combining "Better" and "Same" rating, investors perceive Pakistan IOC to be relatively better than only two regional countries, Sri Lanka and Bangladesh, and equal to Philippines. This is a major decline in positive perceptions over the 2017 survey.
- Pakistan was rated 'Better' or "Same" than six countries included in the 2017 survey, which includes Sri Lanka, followed by Bangladesh, Vietnam, Philippines, Indonesia and India.
- It seems that respondents have been swayed by the economic uncertainty during the survey period due to a number of matters negatively impacting the businesses. These include currency devaluation, increase in inflation, higher bank borrowing rates and delay in approvals for outward non-import remittances. Respondents may not have given due weightage to the considerably more favorable laws and policies offered to foreign investors in Pakistan, as compared to regional countries, like 100% foreign shareholding combined with an insignificant 'paid-up' capital requirement and relatively more freedom to repatriate dividends, royalties and capital.

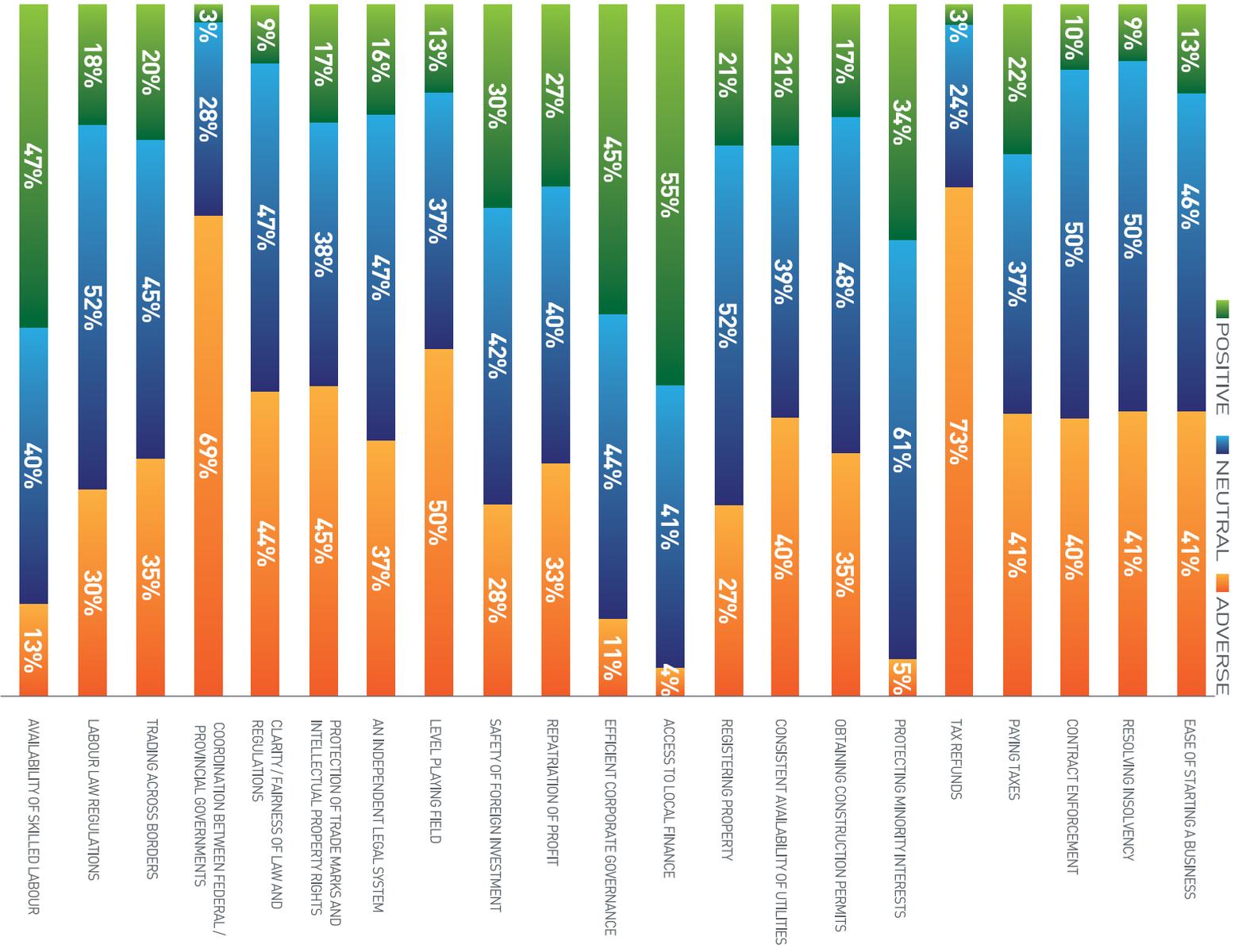
ASPECTS OF DOING BUSINESS

The 2019 survey includes two additional ‘aspect of doing business’ parameters, as compared to the 2017 survey, to align the evaluation with the annual World Bank “Ease of Doing Business” report.

- A noteworthy point in respect of “Aspects of Doing Business” is that upon combining “Good” and the “Neutral” ratings, 8 out of the 19 aspects included in both the surveys have actually improved, with ‘Tax Refunds’, whilst still rated very negatively, recording the largest drop in adverse rating, followed by ‘Paying Taxes’ and ‘Protecting Minority Interest’, the latter being rated very positively in both surveys. The other improvements are in respect of ‘Consistent Availability of Utilities’, ‘Contract Enforcement’, ‘Obtaining Construction Permits’, ‘Registering Property’ and ‘Efficient Corporate Governance’.
- The responses do not properly reflect the liberal and investor-friendly policies of Pakistan which are appreciated by foreign investors. Nevertheless the responses can be leveraged to attract higher level of foreign and local direct investment. The government authorities, responsible for promoting investment and economic growth, should ensure additional simplification in regulatory procedures and processes to become more competitive with regional economies.
- OICCI members have once again highlighted the delay in settling tax refunds and issues due to lack of coordination between federal and provincial governments and regulatory bodies as the two biggest and serious challenges in doing business in Pakistan, with 73% and 69% of respondents respectively giving an “Adverse” rating to these aspects of doing business, followed by ‘Level Playing field’, scoring 50% negative responses, where the positive rating has dropped by 7%. In addition 41% respondents have given a poor rating to ‘Paying Taxes’.
- Members also showed dissatisfaction with ‘Protection of Trade Marks and Intellectual Property Rights’, ‘Clarity/ fairness of law and regulations’, ‘Resolving Insolvency’, ‘Ease of starting a business’, ‘Contract enforcement’ and , Consistent availability of utilities’, where 40% or more respondents showed their discontentment.
- It may be noted here that Pakistan’s ranking in WB – EODB 2020 Report, has improved in ‘starting a business’, ‘contract enforcement’ and ‘consistent availability of utilities’. The improvement in the WB ranking in respect of ‘paying taxes’ is also in line with the responses of member companies, where the positive responses have increased, as compared to the 2017 survey.
- ‘Labour law regulations’ has recorded the biggest improvement in ‘positive’ rating amongst all aspects, as compared to 2017 survey, by 11%.
- In respect of the two new indicators added to the list of aspect of doing business, ‘Availability of Skilled Labour’ and ‘Trading Across Borders’, the former recorded 47% positive responses, which is a good sign whereas the latter fared poorly with 35% negative response.
- ‘Protecting minority interests’, ‘Labour law regulations’ and ‘Registering property’ have received the highest number of ‘neutral’ responses.

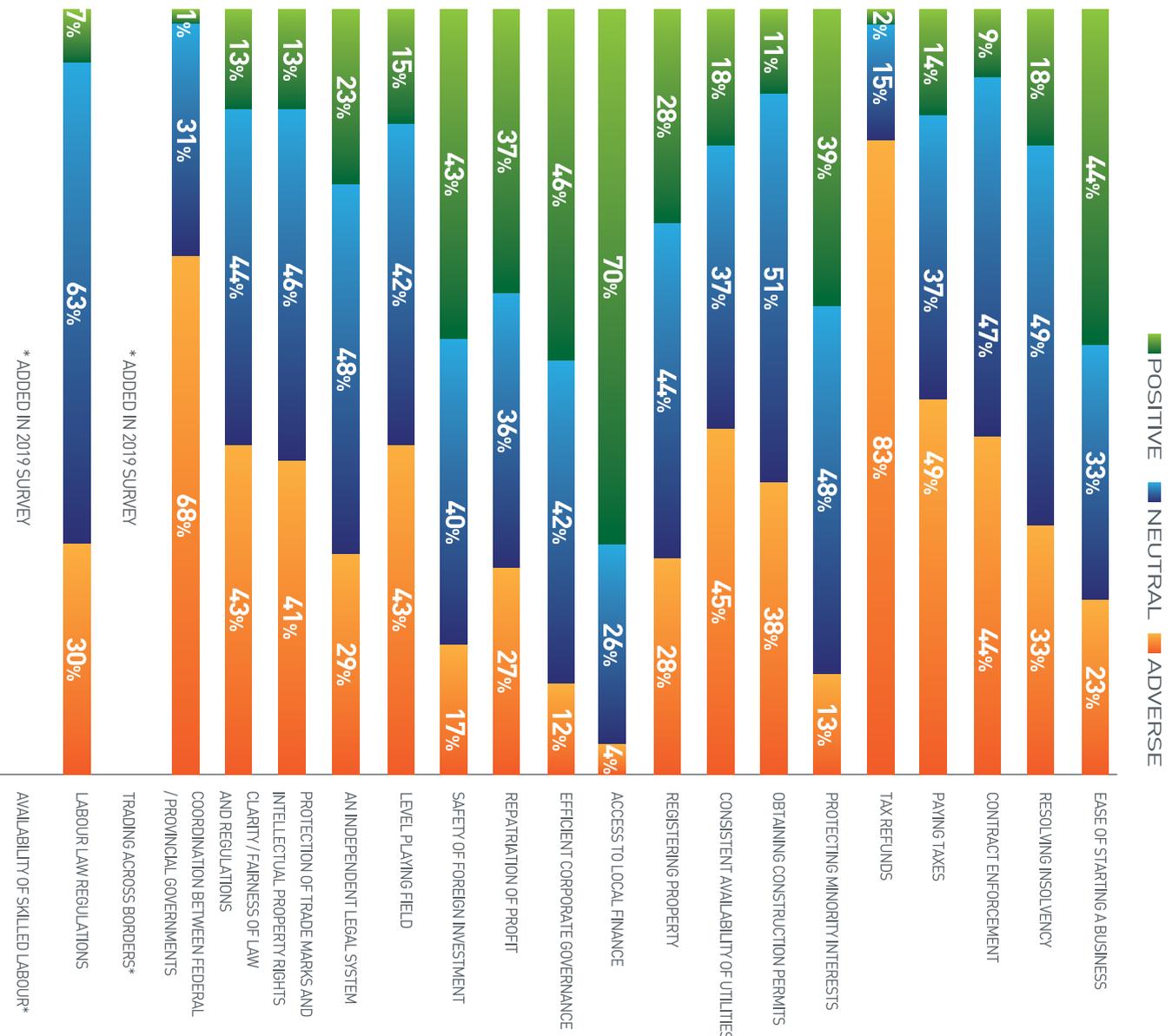
ASPECTS OF DOING BUSINESS

Figure 3(a): Responses in 2019



ASPECTS OF DOING BUSINESS

Figure 3(b): Comparative responses in 2017



* ADDED IN 2019 SURVEY

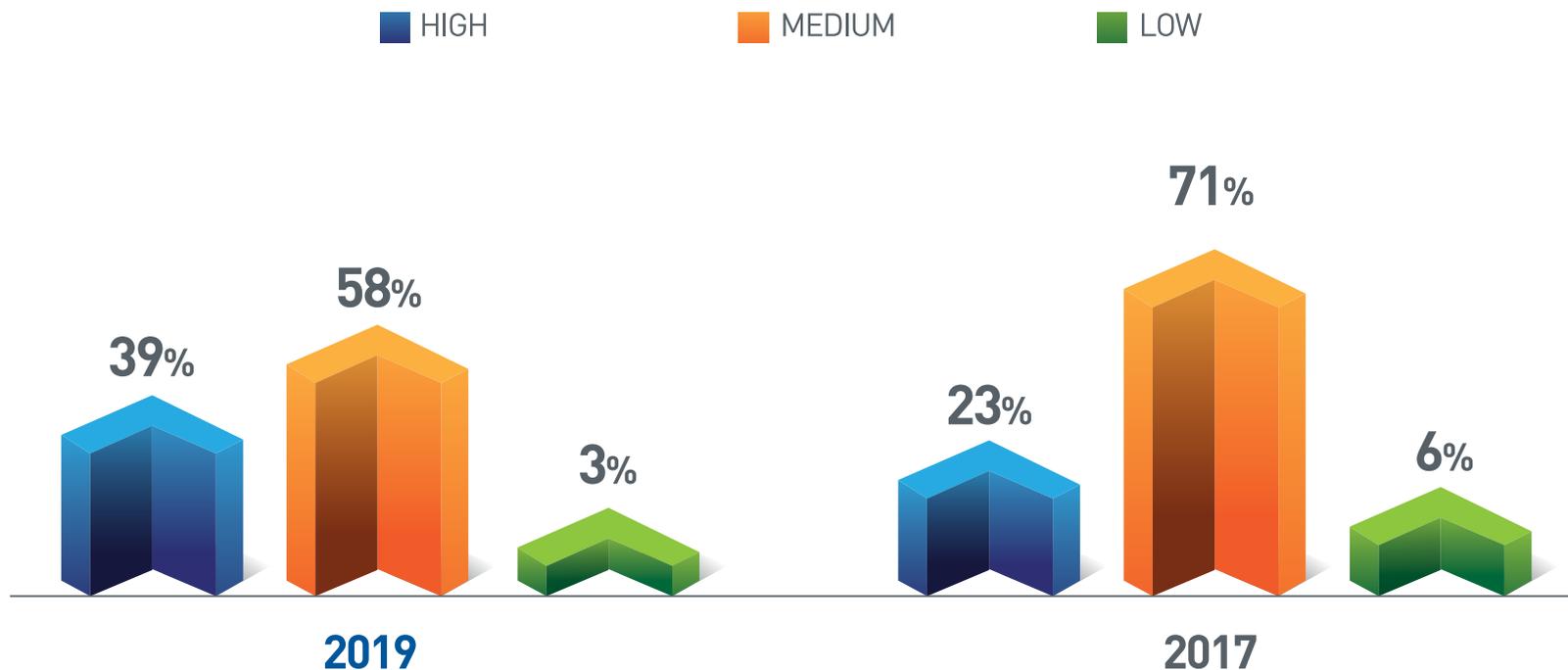
* ADDED IN 2019 SURVEY

BUSINESS RISKS

The drastic increase in the rating of “High” risk by 16% is not surprising owing to the uncertain political climate at the time of the survey. However, more than half of the OICCI members perceive only “Medium” risk to their respective businesses in Pakistan, which again reinforces the belief that OICCI members belonging to 35 countries have a much better understanding of the risk and reward of investing in Pakistan.

Notwithstanding the above, policymakers should take note and devise a policy framework to mitigate at least the risks and boost the confidence of the current and potential foreign investors planning to enter the Pakistan market.

Figure 4(a): Business Risks



Important Business Risks Identified

The major risks identified by the OICCI members include taxation issues, macro-economic risks, currency devaluation, inconsistency regulatory policies, political instability, security concerns and delay in the resolution of the legal cases.

Taxation continues to be the top pain point of the foreign investors in Pakistan, followed by the macroeconomic issues, which includes profit repatriation issues, the rising inflation and policy rates, fiscal and current account deficit. Currency devaluation has been shown separately since this is a serious concern for the foreign investors particularly owing to its impact on the prices of imported products.

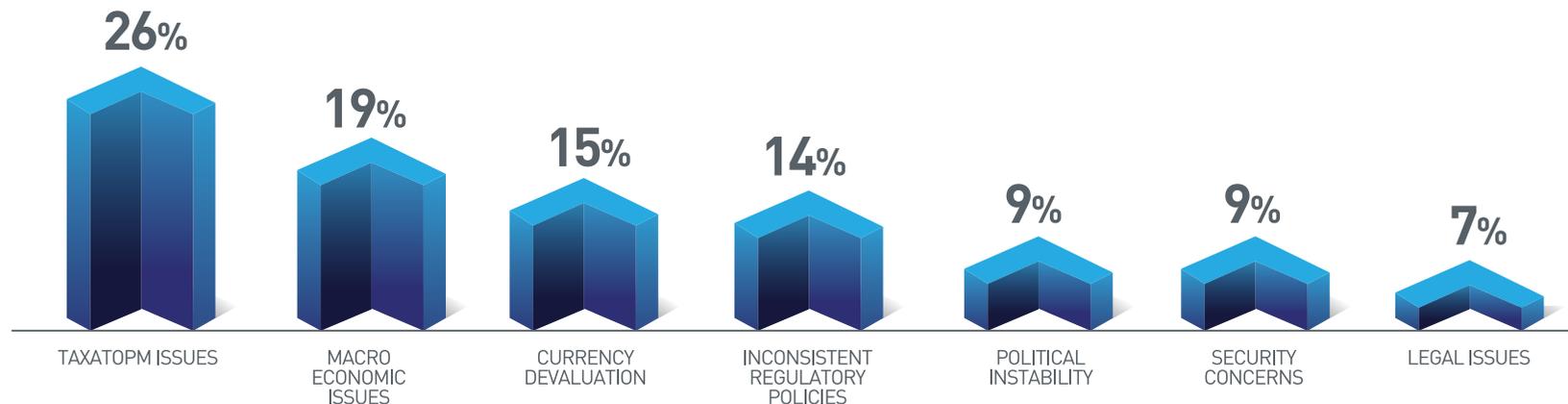
Respondents have also shown their concern over the regulatory environment of Pakistan, thus expressing their strong concerns with excessive regulations. The most pressing regulatory related issues identified are that the policies and regulations tend to be inconsistent and abruptly introduced, along with ineffective enforcement of the regulations.

Risks of political instability included members' perception that the unequal distribution of power among different provinces contributes to this risk. Despite improvements in the overall security, law and order situation, security concerns continue to be identified as pivotal in forming poor perception of Pakistan amongst the headquarters and regional offices of foreign investors.

Some of the risks pertain to specific business sectors. A number of companies belonging to the FMCG and Pharmaceutical companies have mentioned over-regulation, weak IPR protection, sale of counterfeit products, dumping of cheaper imported products, inconsistent policies, rigid registration policies and price controls, impacting profitability, as a risk for their businesses.

Financial sector organizations have identified money laundering and other unethical business practices, fluctuating forex rates and credit risks, particularly due to undocumented economy, as major risks.

Figure 4(b): Important Business Risks



CONTRACT ENFORCEMENT

Figure 5(a): Contract Enforcement Laws in line with International Standards

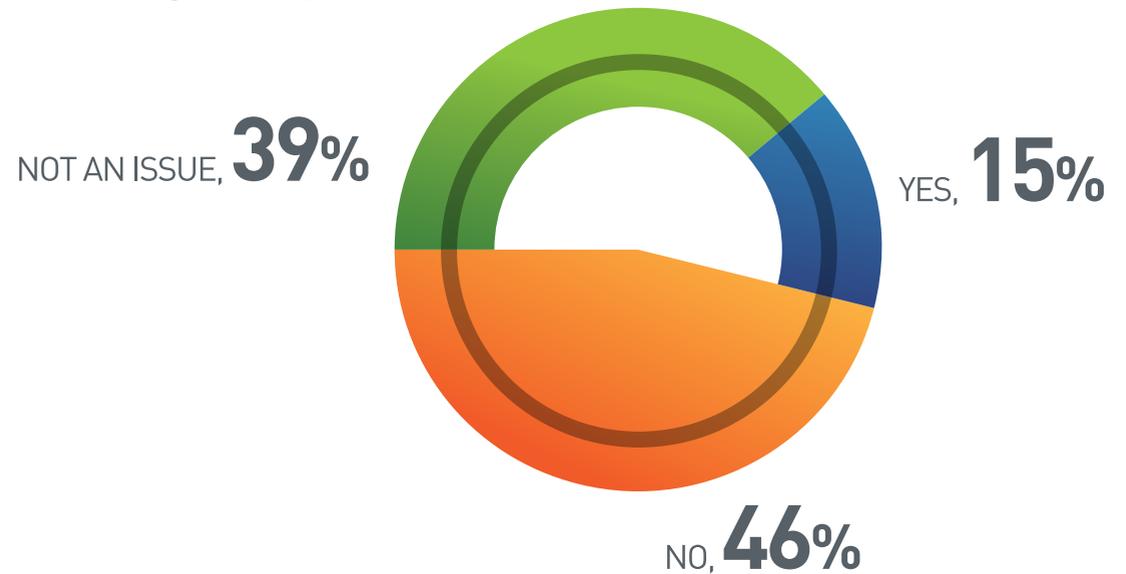


Figure 5(b): Recommendations to Simplify Contract Enforcement



- Majority of the respondents indicate that Contract Enforcement Laws in Pakistan are either not an issue or they are in line with international standards.
- More than half of the respondents agree that the establishment of commercial courts, internationally recognized Arbitration Forums and Free Zone Jurisdiction could simplify the processes and reduce the cost and time involved in contract enforcement in Pakistan. Establishment of Commercial courts seems to be the most popular measure for improving contract enforcement in Pakistan.

Figure 5(c): Average time taken to resolve a standard commercial dispute through the courts in 2019

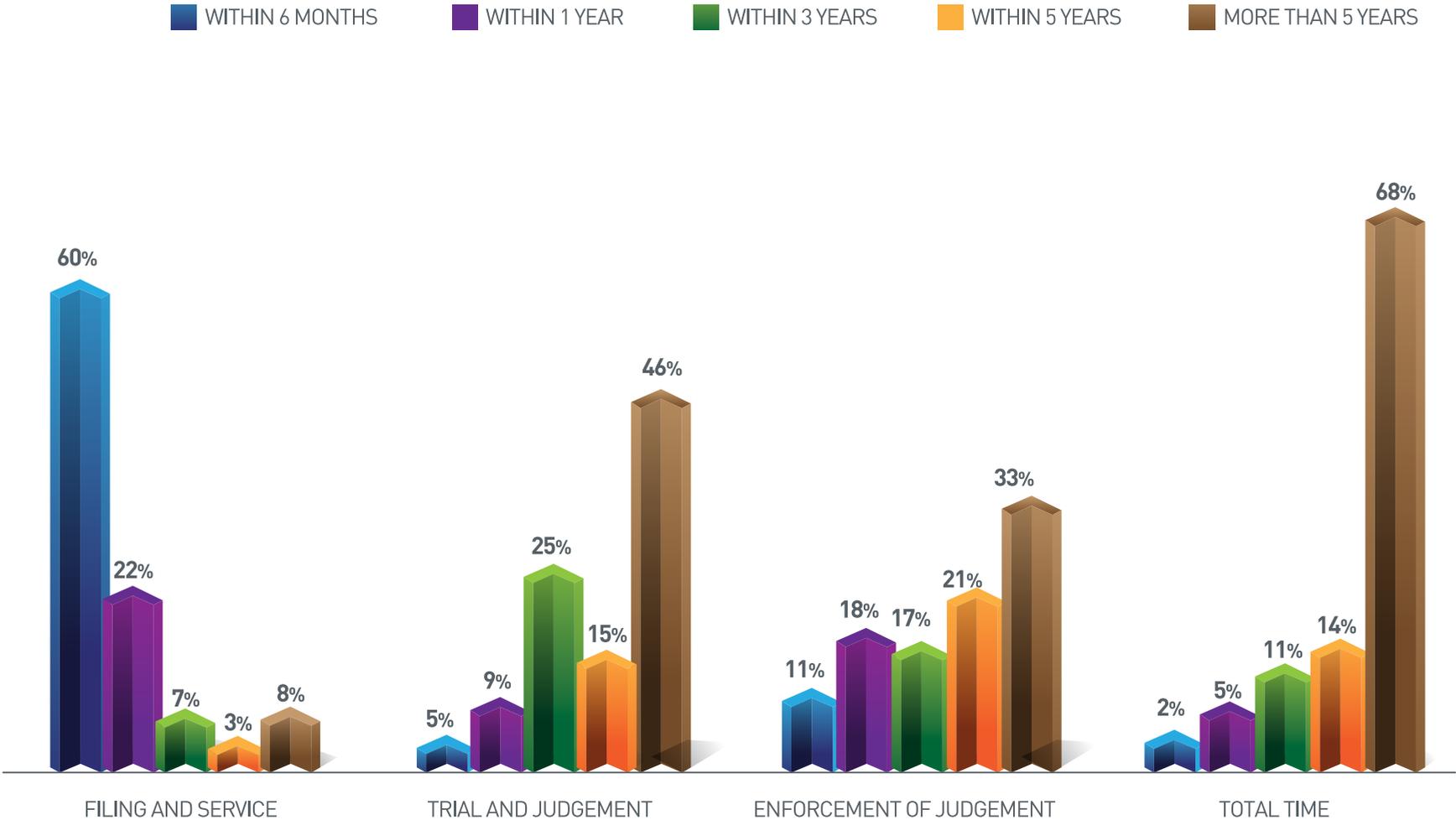
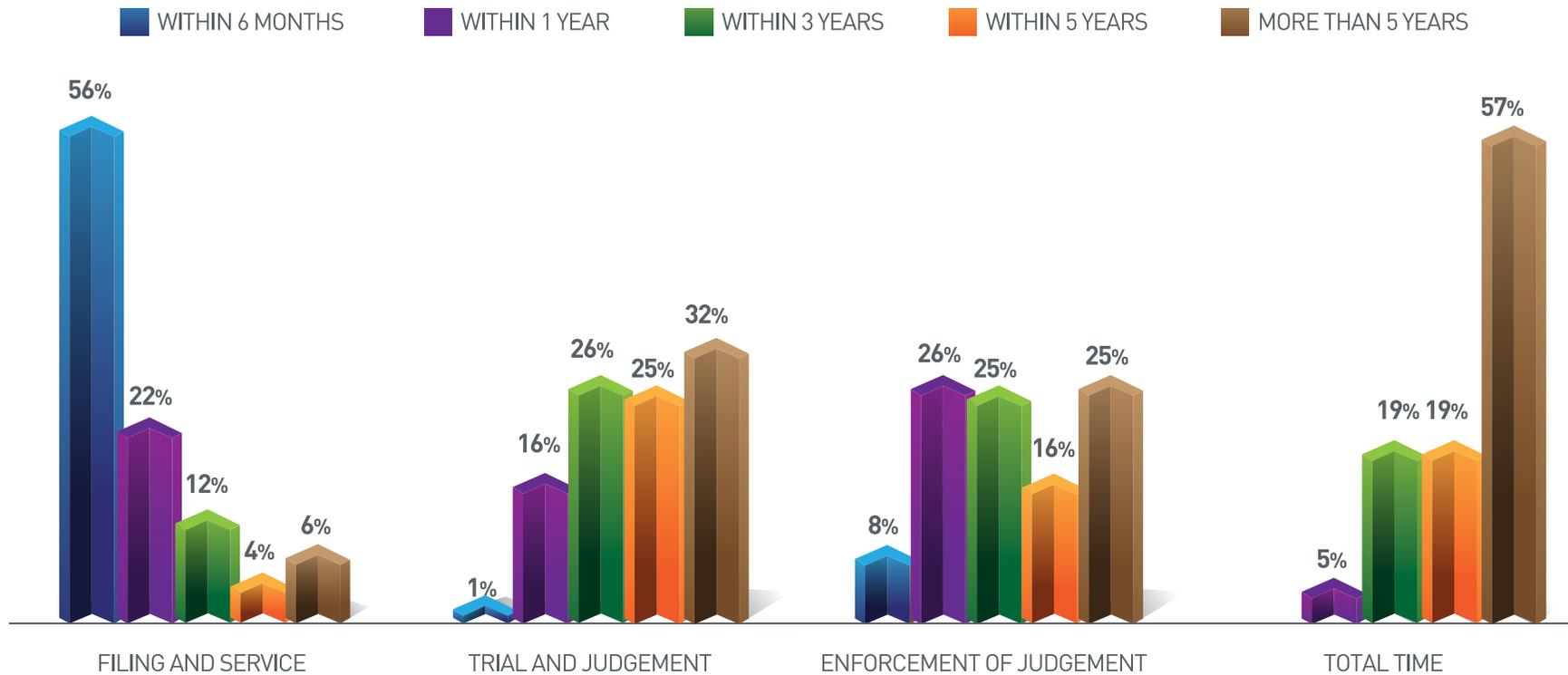
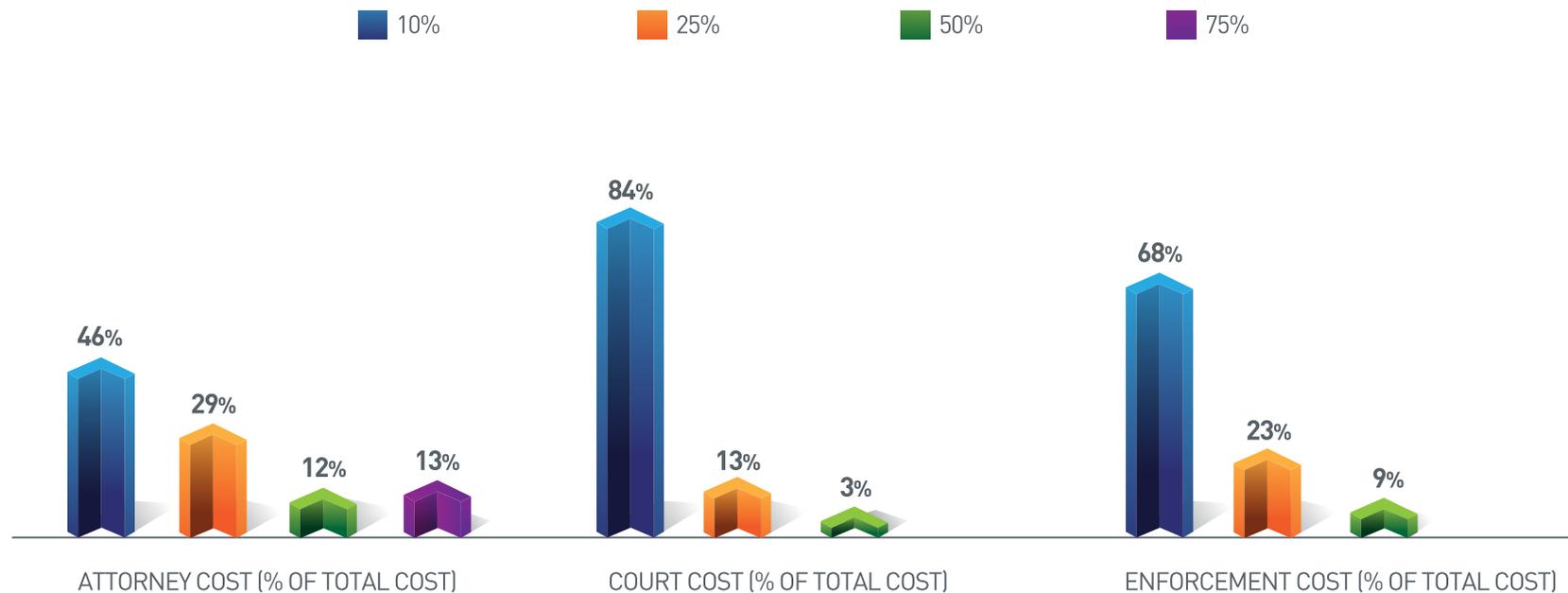


Figure 5(d): Average time taken to resolve a standard commercial dispute through the courts in 2017



- Over two-thirds of the respondents have mentioned that the average time consumed for resolving commercial disputes is over 5 years. However, slightly higher percentage of respondents had their disputes resolved within 6 months in 2019 survey, compared to 2017.
- The protracted time taken for the litigation process obviously leads to high legal costs, increasing the average cost incurred for the resolution of a standardized commercial dispute to approximately 20% of the claim value. The long delays in settlement of disputes in courts together with increased cost of litigation may be one of the key impediments in attracting FDI in the country.

Figure 5(e): Average Cost (% of Claims) incurred for the resolution of Standard Commercial Dispute



Members' recommendations to improve Commercial Litigation System in Pakistan

A large majority of respondents have suggested that there is a dire need to speed up the litigation process in Pakistan and that the process must be time bound, simplified and made cost effective. It is further recommended that one window operation must be initiated for new foreign investors.

Respondents have also pointed out that a capacity building program must be initiated for the judges in order to improve their decision making skills for commercial disputes and make the overall litigation process more efficient and transparent.

Furthermore, members have highlighted that there is a need for improved arbitration laws and procedural reforms and the restructuring of courts. It is recommended that laws and their implementation must be improved. Moreover, the number of commercial courts should also be increased, along with introduction of more benches.

TAX REFUNDS

65% of the respondents have indicated that they are negatively impacted by long delays in tax refunds, and it continues to be the most significant issue for the members concerned. Unfortunately, despite repeated assurances by the concerned authorities, this does not seem to be a priority concern neither for the FBR nor the Ministry of Finance. Despite constant engagement of the OICCI with concerned authorities, the timelines for settlement of tax refunds have actually become worse as 72% of the impacted respondents reported that settlement of tax refunds takes over one year, out of which 52% indicated over two years' delay, whereas, in the last survey 49% reported delays of over two years. The additional bottlenecks created after the enactment of the provincial revenue boards continue to pose serious challenges for nearly all OICCI members as issues of coordination between the various revenue boards have still not been resolved despite a lapse of over eight years, since the devolution of power to provincial authorities.

Figure 6(a): Long Outstanding Tax Refunds, a Serious Concern

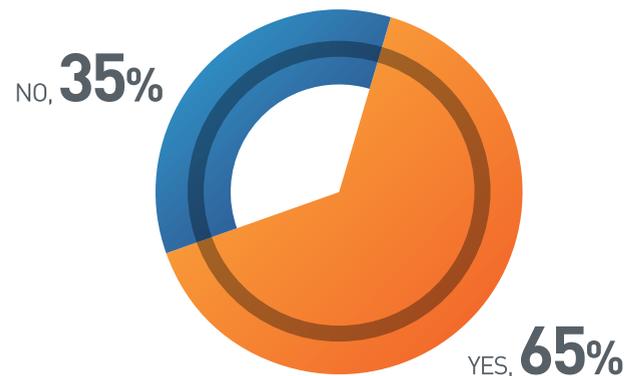
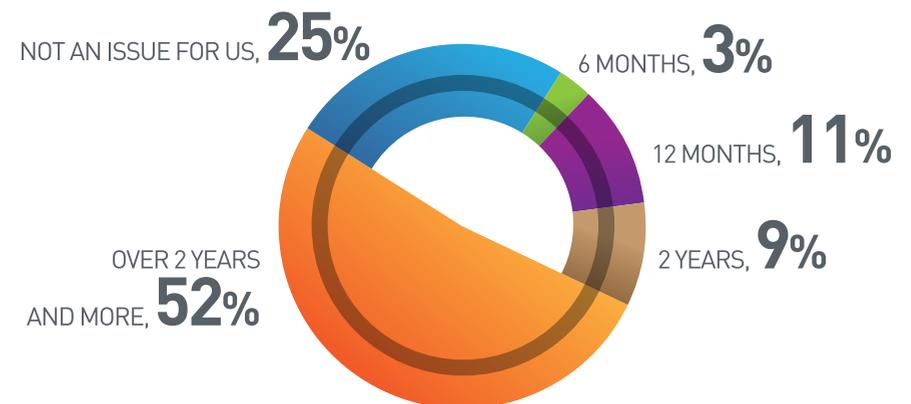


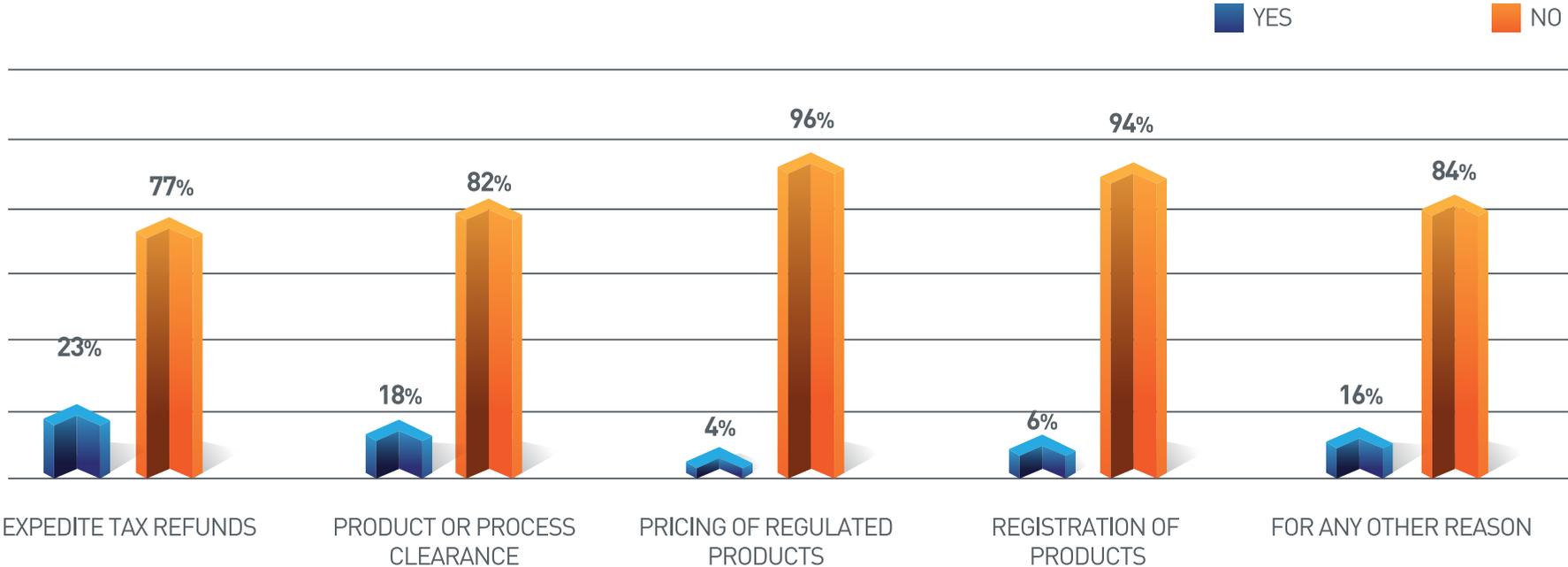
Figure 6(b): Timelines for Settlement of Tax Refunds



- The total amount of refunds at any given point in time, during the last couple of years, is about 8% of the annual taxes paid by the OICCI members, who contribute about one-third of the total annual revenues collected by the federal and provincial governments.

UNETHICAL / UNLAWFUL APPROACHES

Figure 7: Approaches for Unethical Payments



- An average of almost 15% of the respondents reported that they have been approached for unethical payments for various legitimate claims (most related to tax refunds and product clearance). This matter requires an urgent attention by the government.

SECTION II: TOP BUSINESS CHALLENGES

- ‘Security, Law and Order’ has dropped out of the five biggest challenges impacting OICCI members, for the first time in over ten years (ranked as the third biggest challenge in the 2017 survey), reflecting the overall improvement of the security environment in the country, especially, in Karachi.
- In 2019, the ‘Pak Rupee Devaluation’, has replaced ‘Increasing Tax Burden’ and emerged as the most pressing challenge for the foreign investors operating in Pakistan, reflecting over 30% devaluation since July 2018. This has adversely impacted business relying on imports of raw materials.
- ‘Pak Rupee devaluation’ and ‘Gap in the government policies and implementation’ are ranked by respondents as either the top most or the second biggest challenge. Inconsistent policies, and issues with policy implementation are not only operating challenges but also impediments to FDI inflows in the country.

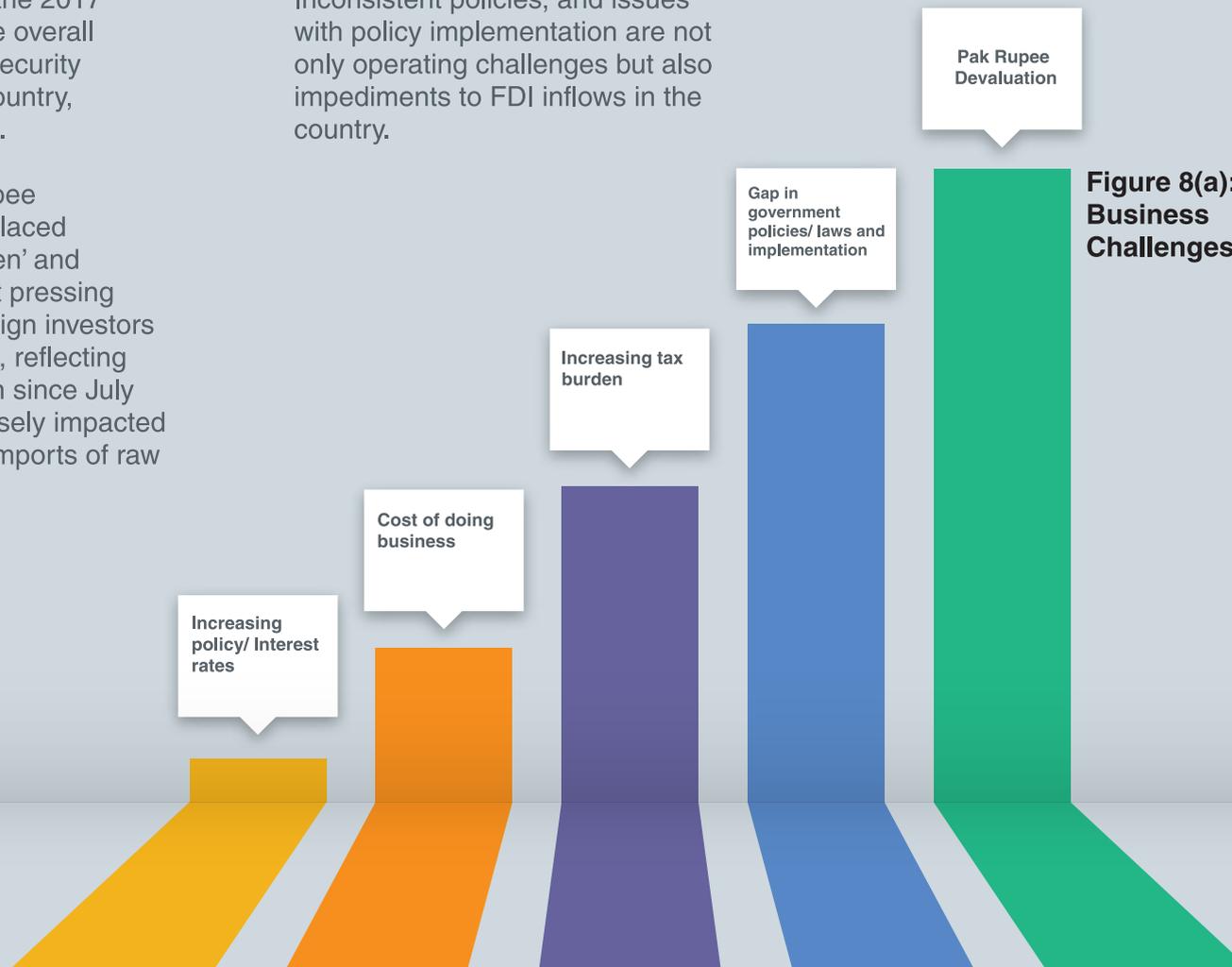
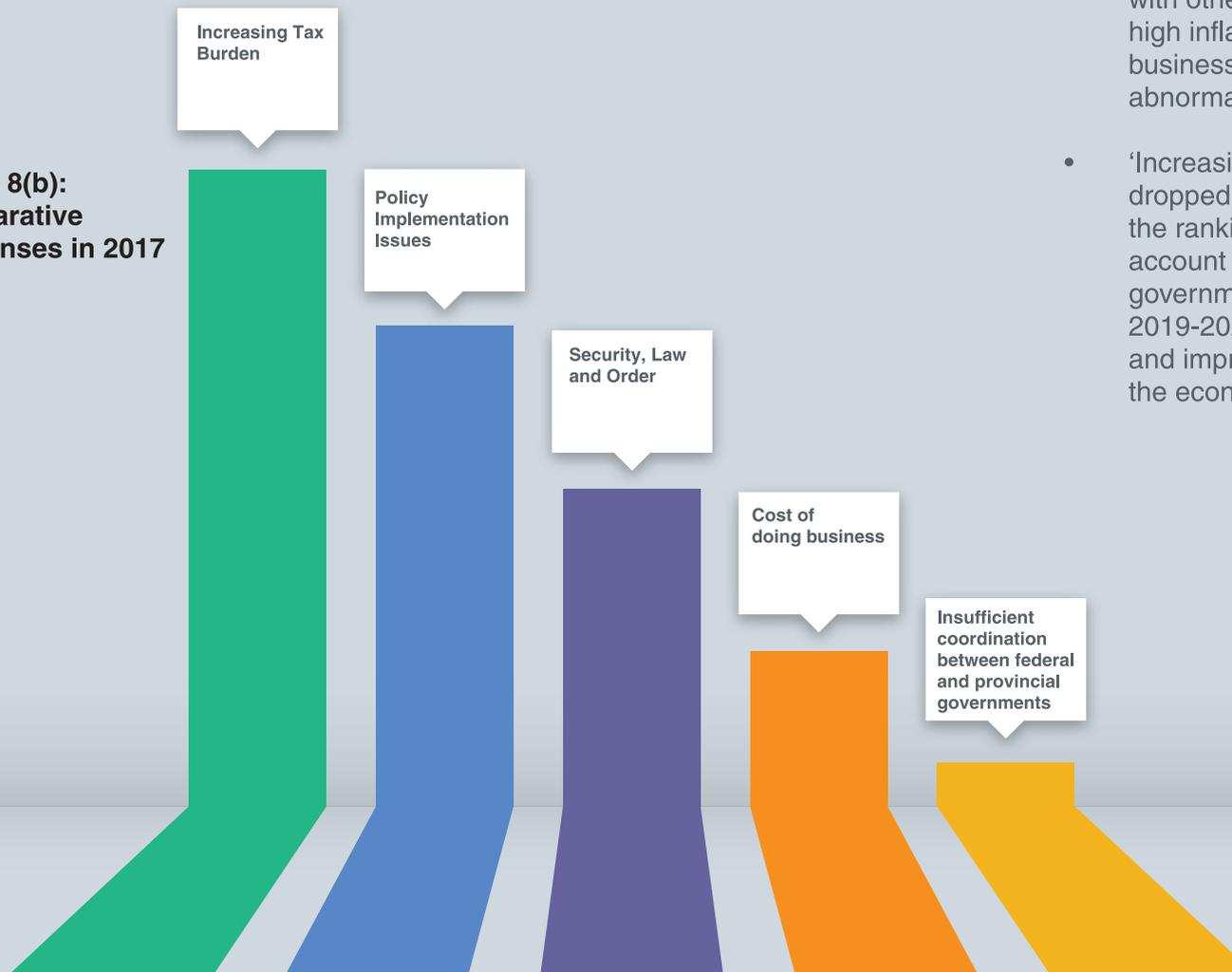


Figure 8(a): Top Business Challenges in 2019

**Figure 8(b):
Comparative
Responses in 2017**

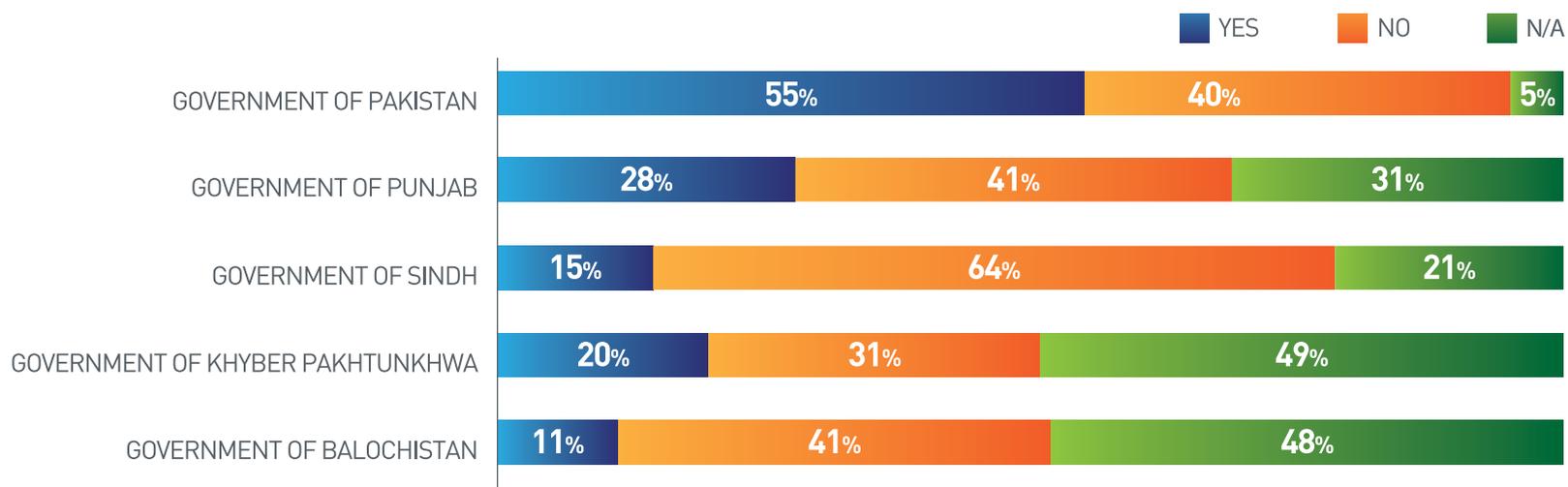


- In its efforts to curb the increasing rate of inflation, the State Bank of Pakistan has increased the 'Policy' rate, affecting the borrowing cost of foreign investors and combined with other increases due to the high inflation, their cost of doing business has recorded an abnormal increase.
- 'Increasing tax burden' has dropped down to number three in the ranking, which is, no doubt, on account of the steps taken by the government in the Finance Act 2019-2020 to broaden the tax base and improve the documentation of the economy.

SECTION III: GOVERNANCE

GOVERNMENT POLICIES

Figure 9(a): Members' feedback on whether the federal and provincial governments engage with key stakeholders in taking major decisions on matters affecting the foreign investors

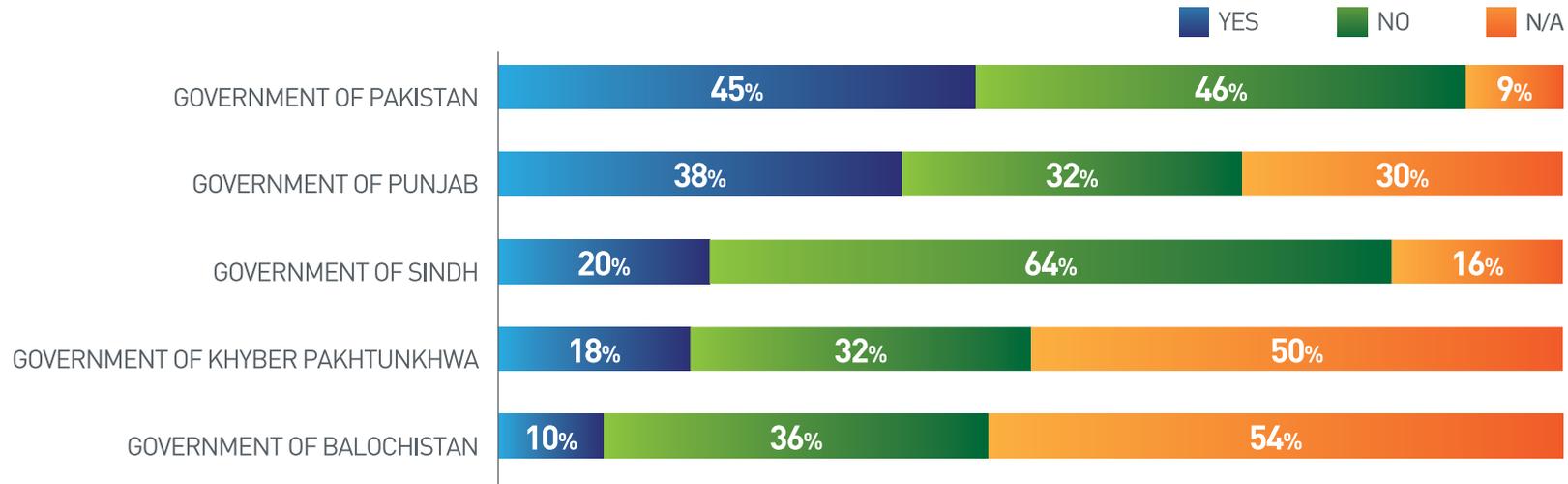


The improvement in the area of governance is reflected by better rated responses in comparison with the last survey. 10% more members have agreed that the federal government engages with key stakeholders in taking major decisions on matters affecting the foreign investors.

However, there seems to be dissatisfaction, based on the experience of the respondents in their dealing with provincial governments, with the Punjab government rating declining by 10% and 5% for Sindh province. The results of Khyber Pakhtunkhwa and Balochistan continue to be poor but show marginal improvement as compared to the last survey.

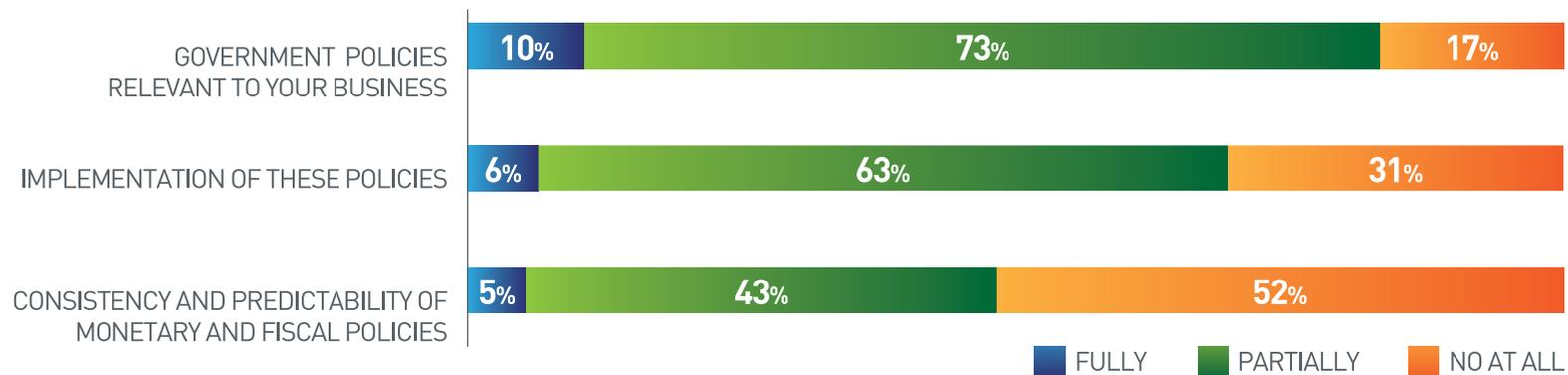
Although the government intends to create an enabling business environment in the country, and is regularly interacting on policy framework improvement with key stakeholders, the responses clearly depict the poor actual experiences of the members in dealing with the provincial governments, mainly due to non-harmonization of the tax regime as well as inter-provincial issues in relation to taxation, food standards and others.

Figure 9(b): Comparative responses in 2017



LEVEL OF SATISFACTION WITH GOVERNMENT POLICIES

Figure 10(a): Satisfaction with Government Policies in 2019

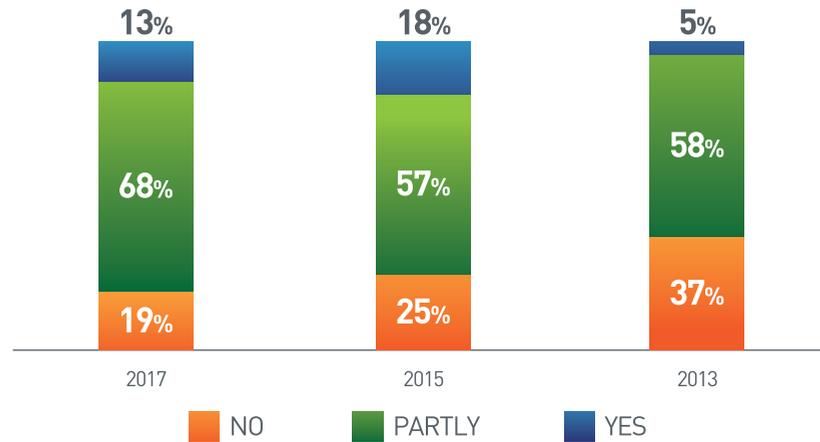


Members have, once again, shown more concern with policy implementation than with policy itself. Compared to previous surveys, the satisfaction level for policies and the implementation of these policies have partially improved.

The above graph indicates that majority of the respondents are unhappy with policies, which OICCI members regularly term as unpredictable, inconsistent and short-term.

Figure 10(b): Comparison with Previous Survey

SATISFACTION WITH THE GOVERNMENT POLICIES RELATING TO YOUR BUSINESS



SATISFACTION WITH THE IMPLEMENTATION OF THESE POLICIES

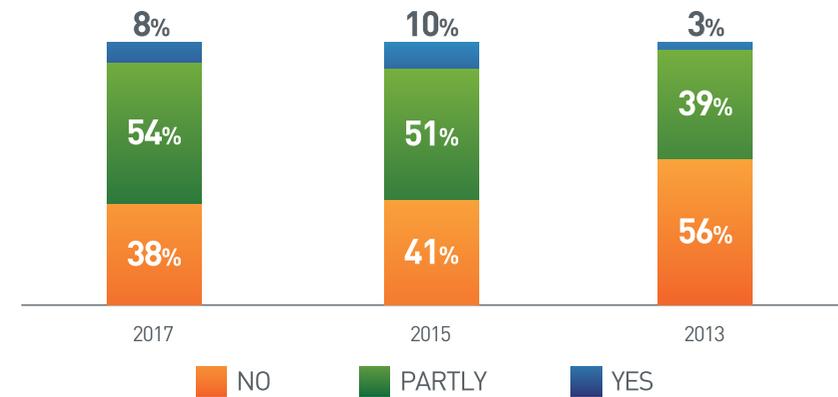


Figure 11: OICCI Members' willingness to assist the government in improving policy formulation and implementation

OICCI firmly believes in the public-private partnership as the key for improving the business operational framework in the country. A large majority of OICCI members have shown their willingness to provide their organization's human resource(s) for the government assistance in improving policy formulation and implementation.

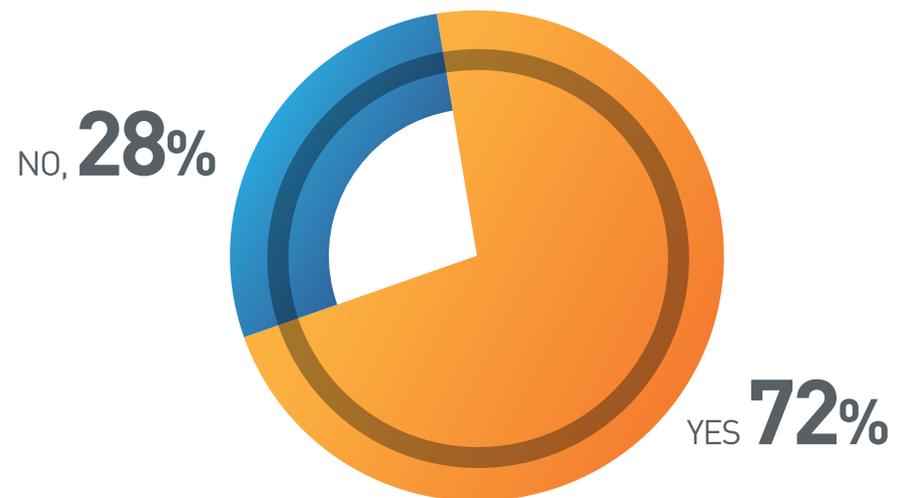
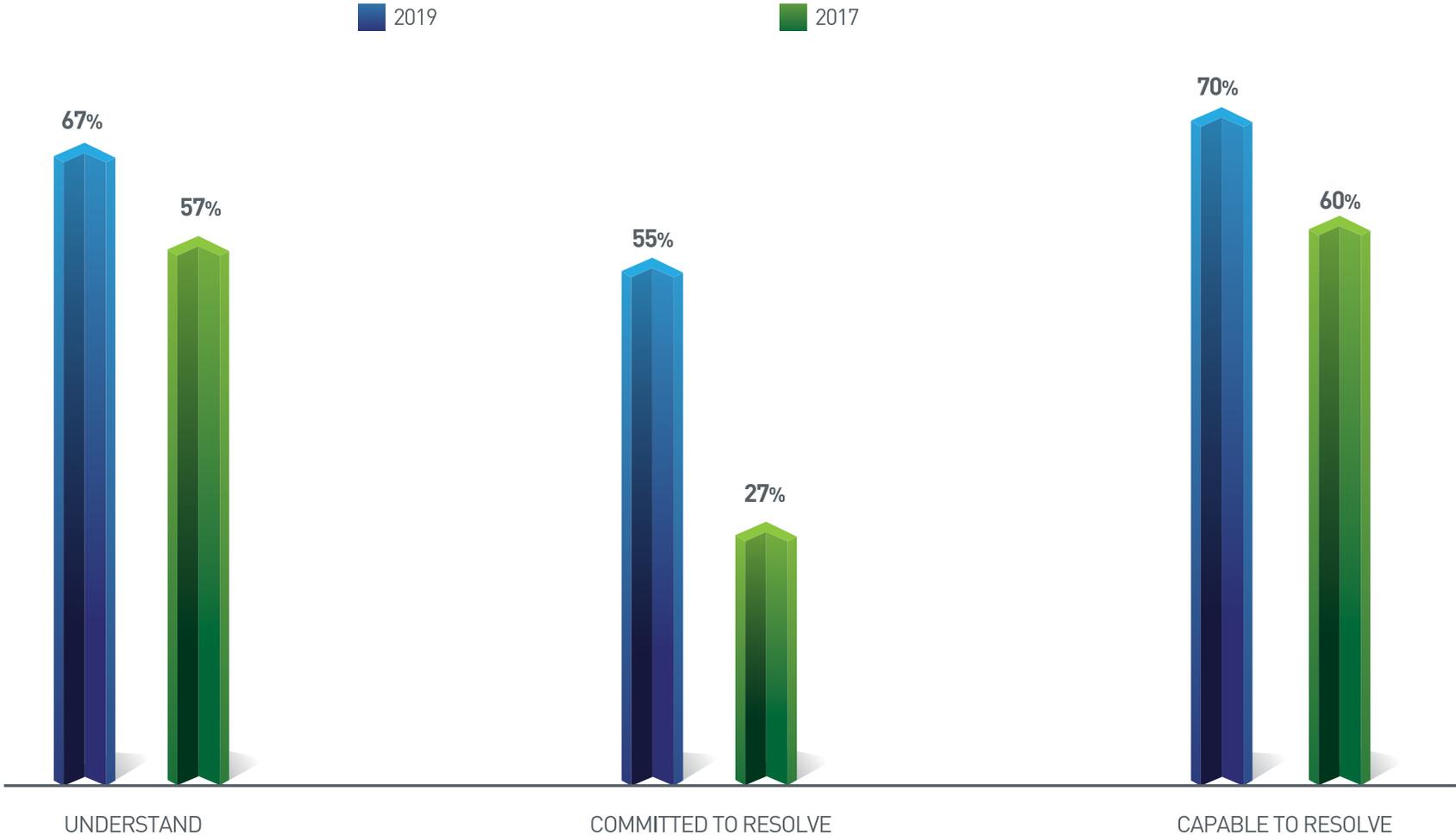


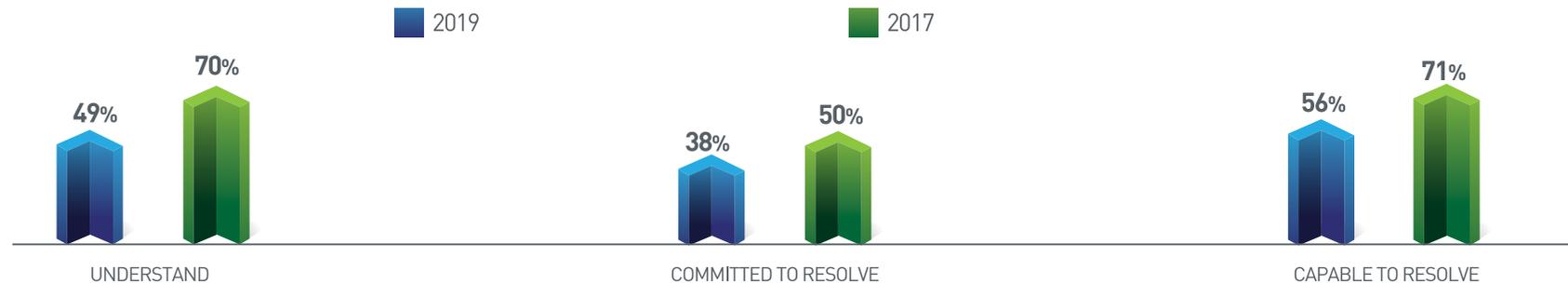
Figure 12(a): Experience with GOP functionalities in relation to key issues facing investors



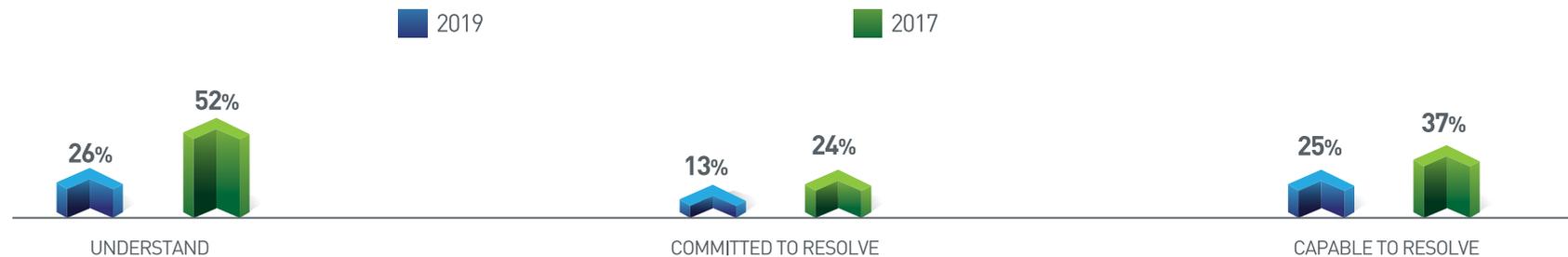
Over 67% of the respondents feel that the government understands the key issues faced by the business community and 70% believe that the government is also capable of resolving issues of investors showing a marked improvement from 2017. A majority of respondents are also confident that the government is committed to resolving these issues. The responses indicate that the government has the investors' confidence.

Figure 12(b): Members' experiences with the Punjab and Sindh provincial governments

PUNJAB



SINDH



The perceptions regarding the two provincial governments have declined in all three areas. The results also indicate the wide gap between understanding or being capable of resolving the key issues and having the commitment to do so. Punjab government has been rated substantially better than the Sindh government. The provincial governments in both Punjab and Sindh need to improve their engagement with the business community that will greatly help in raising confidence of investors. This is especially important when a majority of the largest companies operate from Karachi and Lahore.



GOVERNMENT MINISTRIES

Facilitating investors in the smooth running of their operations is a key role of the government. The federal ministries included in the survey, were selected for both the relevance to our members' base and their frequency of interaction with them. The perception about the four main provincial governments has also been included in the survey. This is on account of the role of the provinces, in matters impacting investment, trade and industry.

PERFORMANCE OF FEDERAL MINISTRIES

Figure 13(a): Responses in 2019

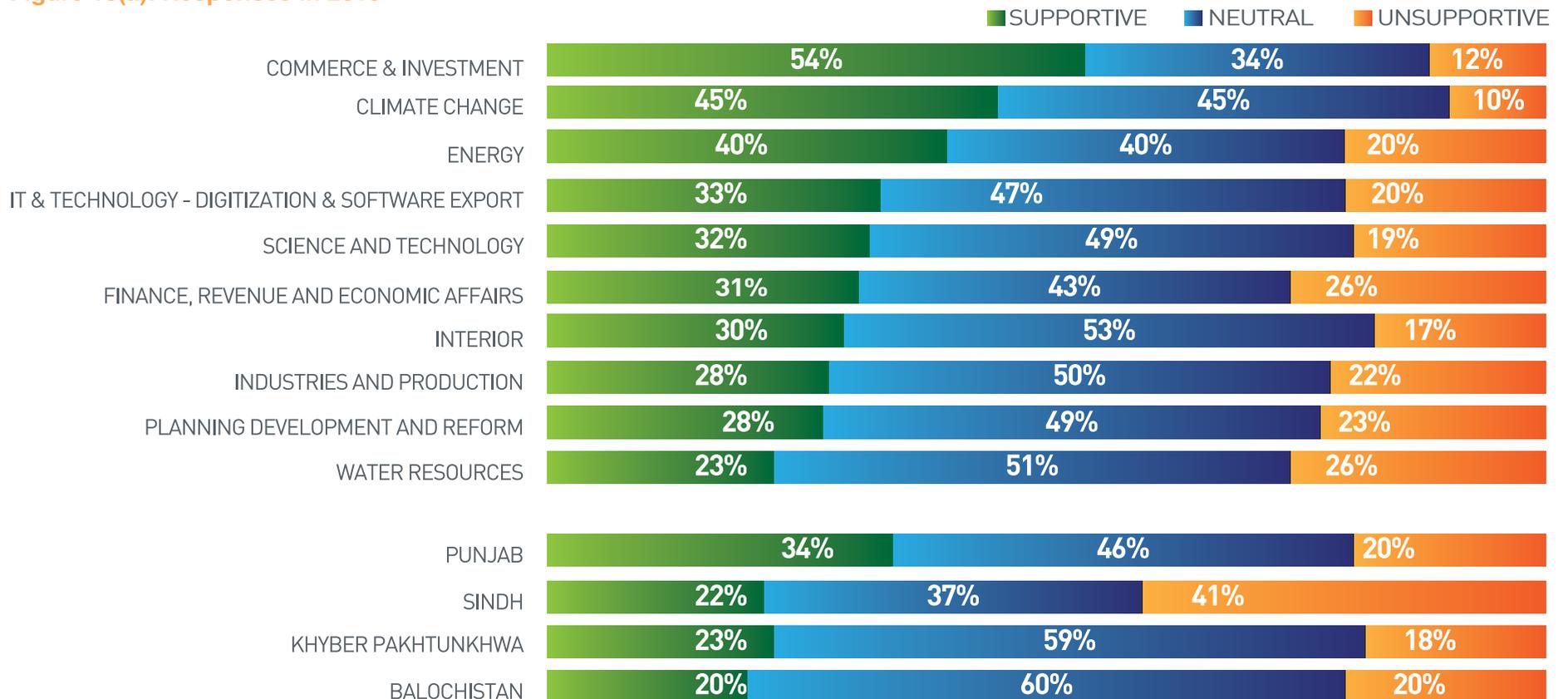
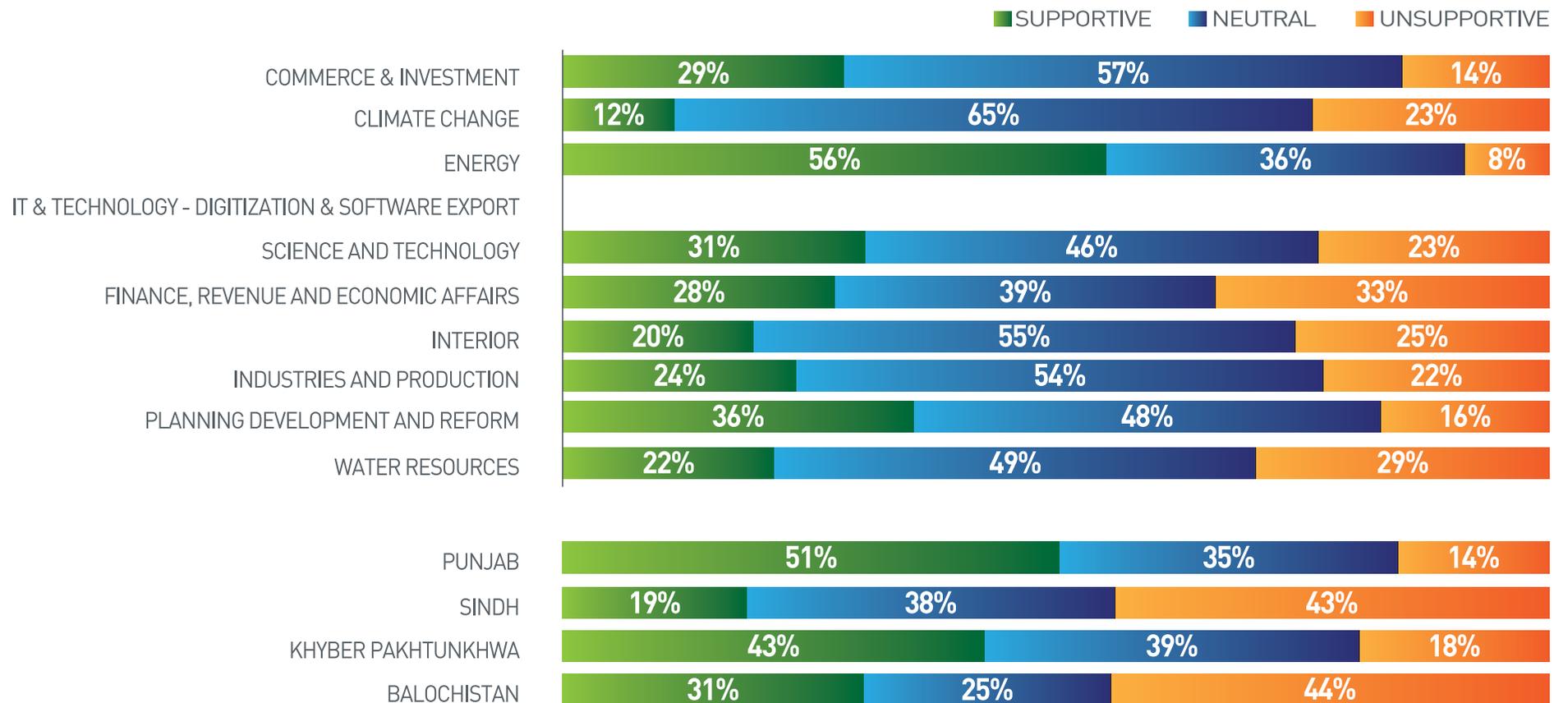
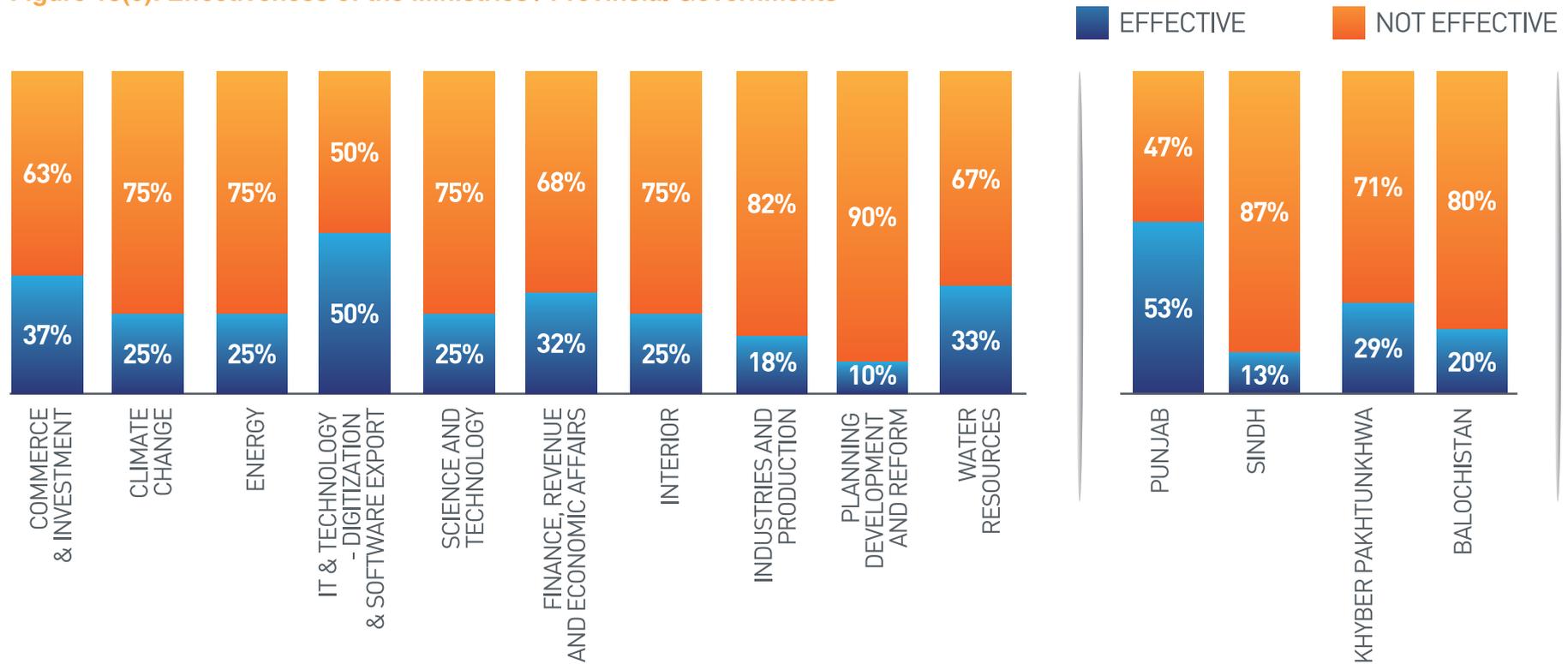


Figure 13(b): Comparative responses in 2017



- ‘Commerce & Investment’ ministry was rated as the most ‘Supportive’ amongst all the Ministries followed by the Ministry of ‘Climate Change’. Almost one-third of responses showed satisfaction with the ministries of ‘IT & Technology’, ‘Science & Technology’, ‘Finance, Revenue & Economic Affairs’ and ‘Interior’.
- The improvement in the rating of the Ministries of a) ‘Commerce & Investment’ b) ‘Climate Change’ and c) ‘Interior’ as compared to the 2017 survey indicates that they have become more supportive for business entities.
- The Ministry of Energy has recorded the biggest decline in rating as compared to 2017, followed by the Ministry of ‘Planning Development & Reforms’. In respect of the Energy Ministry, respondents have indicated that the increase in utility rates is a major burden on cost of doing business and ‘failure in implementation of governance reforms in the energy sector’, has compelled the administration to engage in the same policies as its predecessors, notably to borrow from the market and get the consumers to pay the annual interest and rely on higher tariffs to meet the IMF’s condition of full cost recovery.
- Though the perception regarding the Ministry of Finance has slightly improved over 2017, one-fourth of the respondents still consider it to be unsupportive, which is the highest negative rating amongst all the ministries included in the survey. This could be, in part, attributed to the uncertain taxation policies and over burdening the compliant sector with additional taxes, lack of headway on tax reforms as well as on broadening the tax base, continuing issues of coordination and harmonization between central and provincial revenue boards and frustrations regarding timely processing of tax refunds.
- Amongst the provincial governments, only Punjab has shown relatively better ratings, but has also declined compared to 2017 survey. Ratings for Sindh continue to be quite negative. Since the majority of OICCI members have their registered offices in Sindh, the provincial government needs to take a serious note as not only the existing investors are impacted but even potential new investors will be alerted by this negativity. The government of Khyber Pakhtunkhwa and Baluchistan should also be concerned with the foreign investors’ feedback, as their ratings have also declined.
- Majority of the members, however, have voted highest in the neutral column, which does not seem to reflect a very positive view of the respective ministries and provinces. High officials from all these ministries whose ratings have dropped need to maintain a closer engagement with the business chambers, like OICCI and other key stakeholders to address these issues.

Figure 13(c): Effectiveness of the Ministries / Provincial Governments



- In the effectiveness index, the respondents rated 'IT and Technology' most favorably (by 50%), followed by 'Commerce & Textile', 'Water Resources' and 'Finance, Revenue & Economic Affairs', where at least one-third of the respondents found these ministries effective. On the contrary, 'Planning, Development and Reform' has been rated the most inefficient ministry (by 90%) followed by 'Interior', 'Energy', 'Climate Change' and 'Science & Technology' (by 75% respondents voting each of them as 'Not effective')
- In terms of provincial governments, 53% respondents found Punjab being 'Effective', while, the respondents showed discontentment for other three provinces, 87% respondents considered Sindh being 'Not Effective', followed by Balochistan by 80% and Khyber Pakhtunkhwa by 71% negative rating.
- Effectiveness must be improved by these government stakeholders. One way of doing this is to develop facilitation boards for foreign investors in particular.

REGULATORY AUTHORITIES

Figure 14(a): Responses in 2019

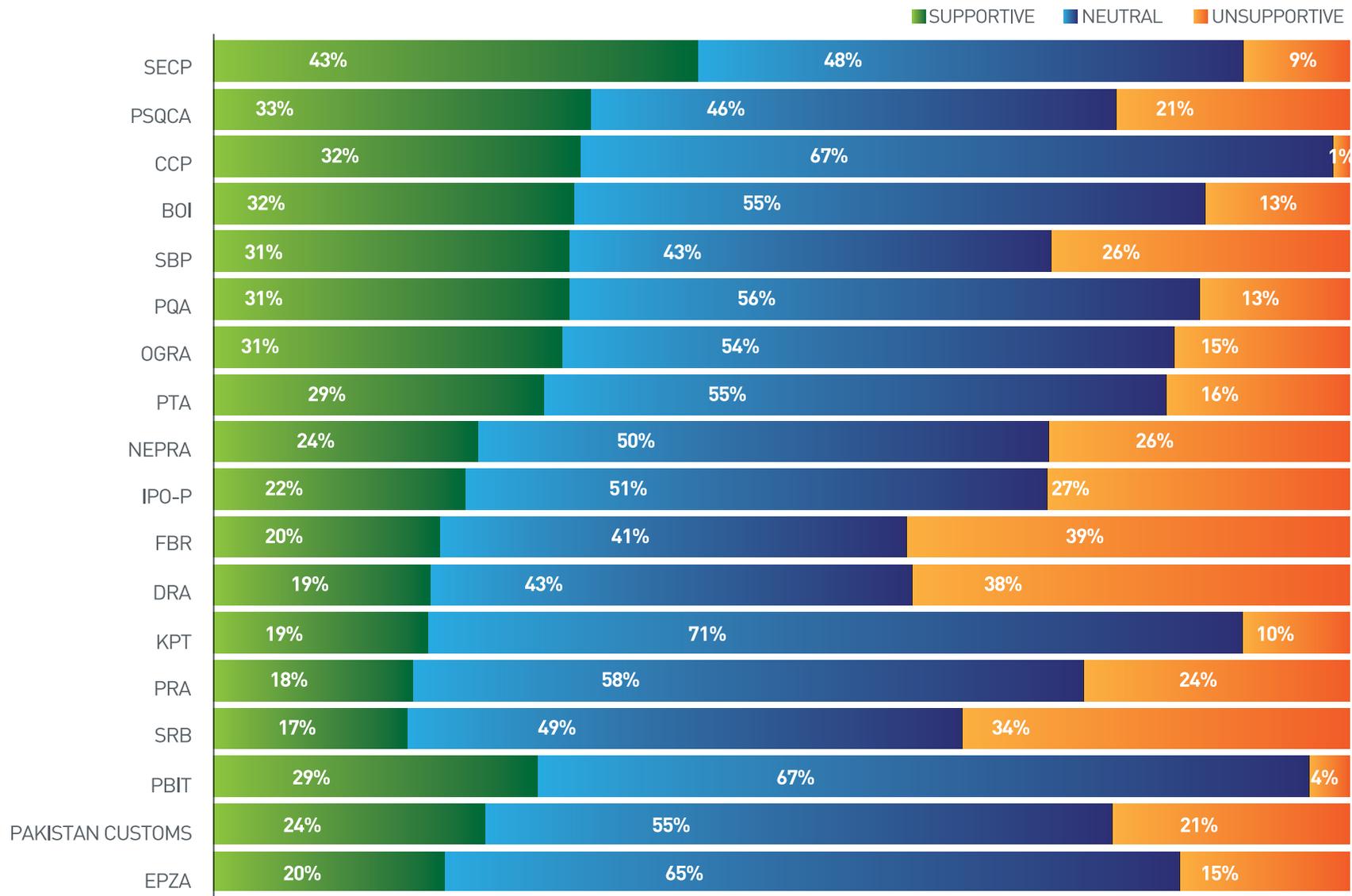
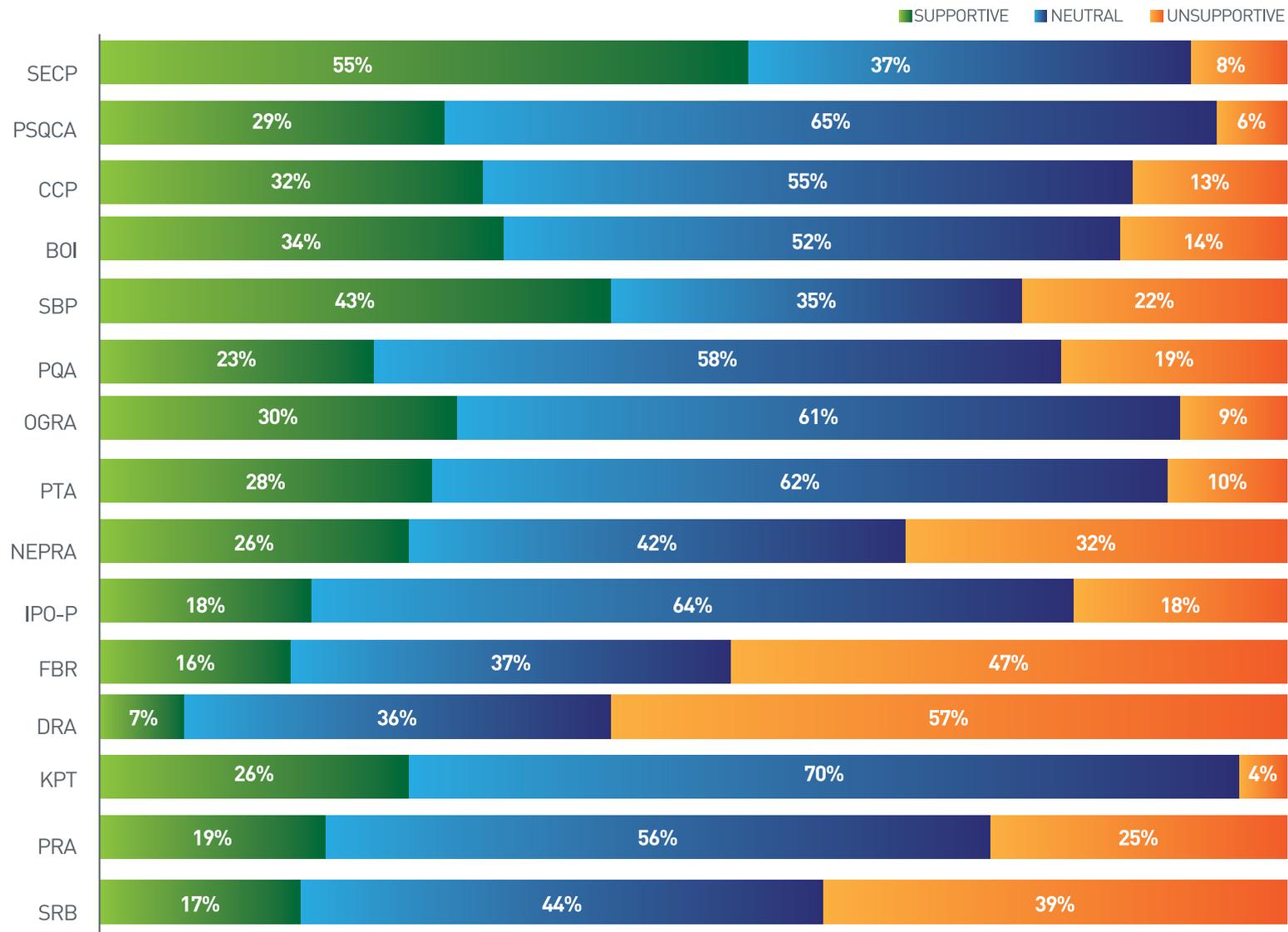


Figure 14(b): Comparative responses in 2017

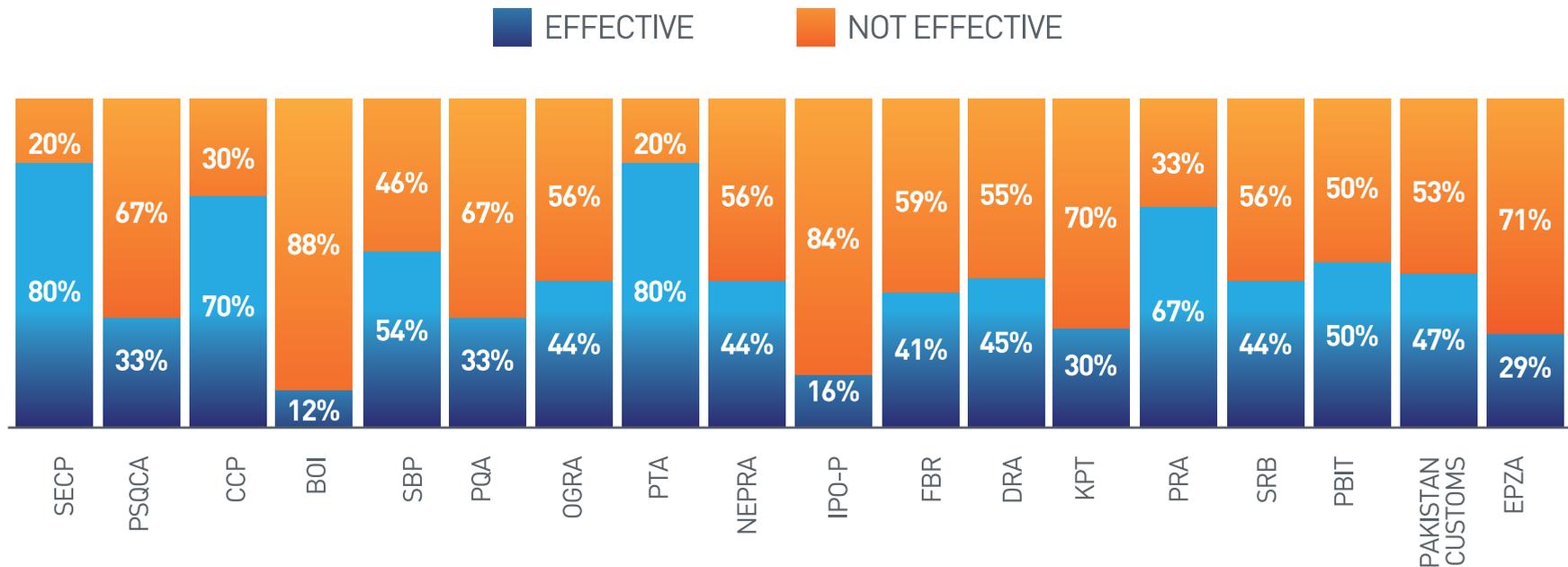


PERFORMANCE OF THE REGULATORY AUTHORITIES

The performance of 18 regulatory bodies was also evaluated in the survey, taking into account their relevance and importance in the functioning of businesses. The results revealed that most of the regulatory bodies were perceived to be neither supportive nor unsupportive.

- It is important to note, that the satisfaction of almost all the regulators have declined, as compared to 2017 survey, with few exceptions like 'Drug Regulatory Authority (DRA)', 'Port Qasim Authority (PQA)', 'Pakistan Standards and Quality Control Authority (PSQCA)' and 'Intellectual Property Organization-Pakistan (IPOP)' showing improvement by 12%, 8%, 4% and 3% respectively.
- The 'Competition Commission of Pakistan (CCP)' fared better amongst all the regulatory bodies with over 99% of respondents showing satisfaction with its performance followed by 'Board of Investment (BOI)' scoring 88% favorable responses.
- Members' perception about the performance of 'State Bank of Pakistan (SBP)' and 'Securities and Exchange Commission of Pakistan (SECP)' declined considerably over 2017. In the case of SBP, it seems that the delays in processing of foreign currency transfers contributed to the negative perception.
- 'Federal Board of Revenue (FBR)' again fails to win the confidence of the foreign investors and secured the highest 'Unsatisfactory' ranking. Along with the earlier issues of long delays in tax refunds, new tax burden and haphazard policies have added to the woes of the overtaxed compliant sector. One-third of the respondents have also shown their dissatisfaction with 'Sindh Revenue Board (SRB)' and 'Punjab Revenue Authority (PRA)', mainly due to the long unresolved conflicts of jurisdiction between the federal and provincial revenue boards, negatively impacting the business community.
- 'Drug Regulatory Authority of Pakistan (DRAP)' has again received the second highest negative assessment amongst all regulators. Although, the results have improved over 2017, Pharma sector companies maintain that DRAP is not receptive to addressing some important concerns in respect of pricing, new drugs registration and third party or contract manufacturing, which are core business issues for the industry.
- Three new regulatory bodies have been added in this survey, namely 'Punjab Board of Investment and Trade (PBIT)', 'Karachi Port Trust (KPT)' and 'Export Processing Zone Authority (EPZA)'. Almost one-fourth of the respondents perceived the performance of these new entrants satisfactory.

Figure 14(c): Effectiveness of the Regulatory Bodies



- In the effectiveness index, respondents found SECP and PTA as most effective, followed by CCP and PRA.
- Based on their experiences, members showed high discontentment with BOI and IPO-P. EPZA, KPT, PQA and PSQCA were also perceived ineffective by almost two-third of respondents, while, SBP, FBR and PBIT received mixed sentiments.

The respondents highlighted the following policy issues affecting their industry and also suggested some recommendations to address these concerns:

Key Policy Issues:

- Inconsistent government policies and uncertainty in policy decisions
- Lack of enforcement of existing regulations
- Unpredictable business environment and lack of level playing field
- Devaluation of Pak Rupee and inflationary pressures
- Poor Intra-Ministerial Coordination
- Lack of Government support for Research and Development
- Too many regulations – too frequent, lengthy and unpredictable change
- Failure of regulators to act as facilitators and be supportive
- Devaluation of Pak Rupee and High interest rates
- Lack of adequate duty protection to local manufacturing and consistency thereof
- Implementation of Auto Policy 2016-21 in letter and spirit

Taxation:

- Increase in tax burdens to organized or compliant sectors

- Unfriendly business tax law and its implementation
- Inconsistency of taxation on exports of services across provinces
- Lack of accountability of tax officials in cases of harassment
- Frequent increase in tax rates and custom duty tariffs
- Significant time delays in allowing repatriation of dividends by SBP
- Ambiguity in sales tax applicability on services offered by container terminals
- Taxation of Islamic banking transactions
- Branches of Foreign Insurance Companies are not permitted
- Pharma pricing being set by DRAP under new policy
- Unnecessary tax litigations

Energy:

- Lack of coordination between various regulators and bodies in the power sector. Delay in issuance of policy framework for renewables.

- Directionless Renewable Energy Policy- Projects
- Energy Policy – Ad-hoc decisions and lack of competitiveness
- Higher taxes on dividends for Power sector

Pharmaceutical:

- Pharmaceutical Pricing Policy – being set by DRAP under new policy
- Over regulation of the industry

Suggestions:

- There should be consistency, transparency and predictability in the policy framework of the country, with clarity in the policies for all business sectors.
- Appointment and selection of competent people to identify causes and implement required actions. All key regulatory bodies and departments are required to develop technical capabilities to have better understanding of the issues and challenges faced by the industry.
- All sorts of policy measures and decisions should be fully consulted with all stakeholders, before implementation with strong commitment and ownership.

- Fiscal and Monetary Policy must be aligned to promote industrialization.
- Promote manufacturing rather than trading. Pace of deindustrialization of economy has to be arrested.
- Delegation of specialized tribunals and courts having required knowledge and competencies to resolve litigations.
- Improvements in monetary policy which can lower down the financing cost of new projects.
- Availability of basic infrastructure for industrial zones i.e. roads, water, utility, waste disposal etc. should be improved.
- Strong government control on quality of food products and legal enforcement upon grey markets where hazardous food products are produced.

Taxation:

- Reduction in the number of taxes and tax rate, restoration of tax credit on BMR, lowering of turnover tax rate and rationalization in duties, tariff and tax rates of regulated corporate entities by reducing the burden of tax and compliance from organized sector. Customs tariff should be

reviewed to incentivize import substitution.

- Propose tax on profitability rather than on imports. Better monitoring and controls over grey imports with raid and punitive actions for violators.
- Steps should be taken to reduce the interest rates and improve the performance of capital and equity market. Further, simplification of the process and rules for venture capital investment.
- SBP should allow foreign remittance by importer for import of spare parts.

Energy:

- Improvement in power policy in terms of facilitating the PPA of older power plants.
- Proper energy forecast and planning, the right energy mix, with focus on reducing distribution companies losses through capacity building, technological solutions, administrative measures and privatization.
- Being highly regulated sector, it is unjust that taxes are applied to high turnover but there is no assurance of profits. Refineries and OMCs are paying Minimum Tax @0.75% on turnover.

- Policy to include measures that ensure no unnecessary loss occurred to refineries due to factors like PKR depreciation which are beyond refineries' control.
- Energy Ministry needs to have a strong coordination function between NEPRA/ PPIB/ CPPA and NTDC.
- Privatization of the Power Distribution Companies.

Pharmaceutical:

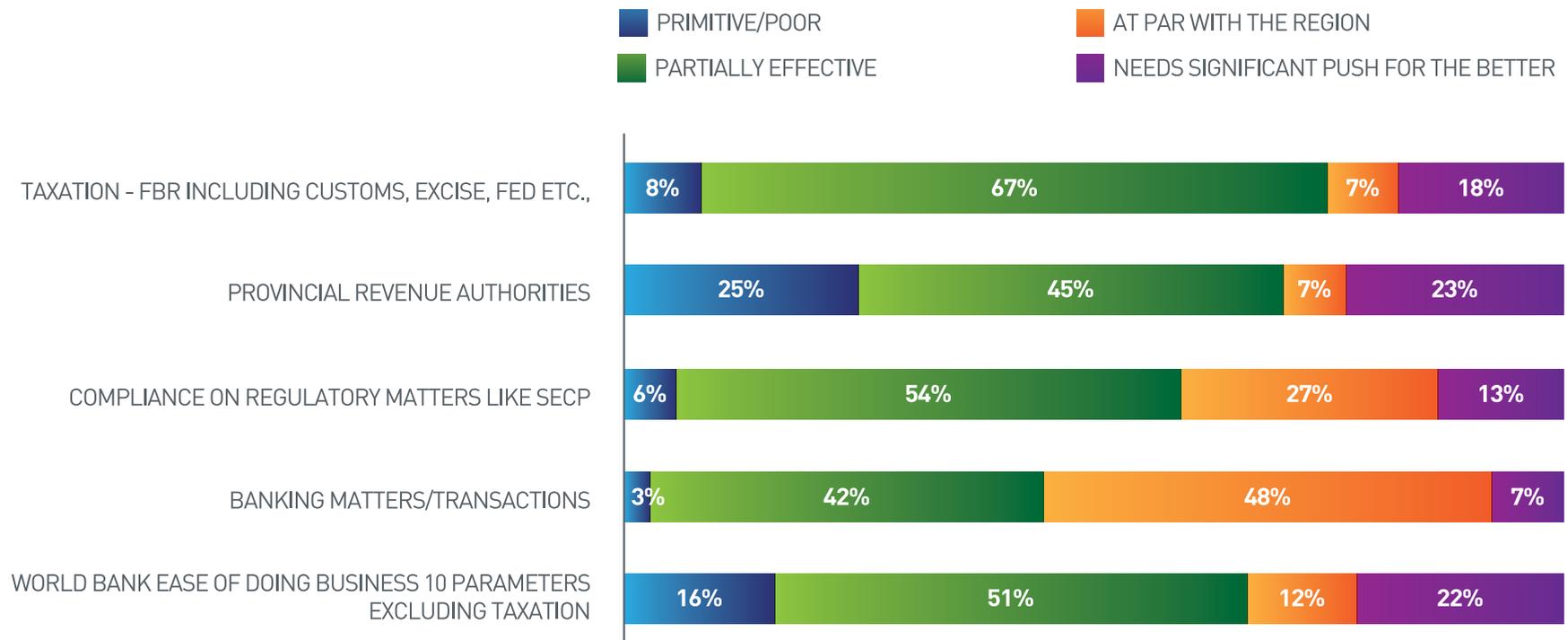
- Stable and equitable pricing policy to adjust the impact of devaluation. Deregulate prices of non-essential drugs. Introducing rate of return pricing regime.
- Medically critical products, orphan drugs and specialized products like vaccines should be premium priced to ensure their long term uninterrupted supply.

Tobacco:

- Formation of a dedicated team to ensure effective enforcement against illicit cigarette operators, seizure of fraudulently obtained assets, imposing deterrent penalties and closing all non-compliant cigarette manufacturing facilities.

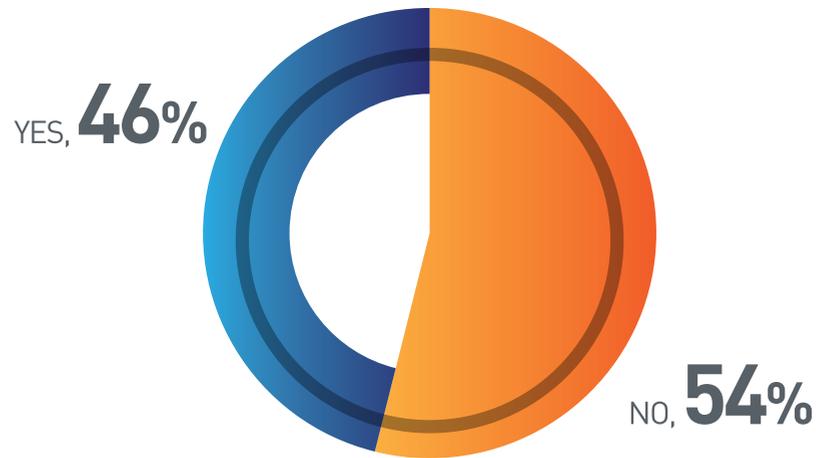
SECTION IV: DIGITALIZATION

Figure 15(a): Level of Digitalization/automation in compliance/regulatory matters with direct impact on EODB



Analysis of Figure 15(a) shows that the level of digitalization is only partially effective in Pakistan. However, 48% of the respondents opine that digitalization in banking matters/transactions is at par with the region.

Figure 15(b): Satisfaction with the regulations relating to digitalization in the country



More than half of the respondents are not satisfied with the regulations relating to digitalization in the country.

Recommendations on taking advantage of digitalization to improve EODB

Respondents have shared that they agree with the recommendations made in the OICCI publication, titled “Recommendations on National Program for Digital Transformation” (available on OICCI website – www.oicci.org) for improving the Ease of Doing Business (EODB) with the help of digitalization.

According to the respondents, digitalization to improve EODB should be a part of a national action plan and a comprehensive approach should be used rather than a mere ease of visa procedures. Following suggestions have been made for use of digitalization for improving EODB:

1. Integration of different ministries and departments for quick and efficient workflow and simplification of processes.
2. Digitalization can help to improve documentation of the country by

discouraging cash transactions. Credible partners like PayPal can be collaborated with, to help expedite this process.

3. Introduction of legislation which supports digitalization e.g. with regard to admissibility of electronic document, the existing legislation of 2000 needs to be reviewed. Legislation should be made comparable with other emerging markets.
4. Regulatory bodies to work together with the banks to increase the adoption of digital channels by the masses.
5. Digitalization can be used to devise a one-window operation and digital database for the ease and guidance of the foreign investors.
6. Before embarking on digitalization, it must be ensured that enough awareness is created among the workers/users and systems are well-prepared, thus saving on costs and time.
7. Once a digitized system is in place, sufficient time must be allowed for it to set in with the users, instead of introducing new systems frequently.

SECTION V: TRADE AND FISCAL POLICIES

TRADE POLICIES

The investment climate is primarily based on fiscal policies of the government, as well as relations with trading partners. Bilateral agreements between Pakistan and other countries impact some members involved in manufacturing activities of finished products which could be imported from these countries. In this respect, the key take away from the responses in Figure 16(a), is that 25% of respondents have reported that the MFN/NDMA agreements with India impact them either 'Adversely' or 'Very Adversely', which is, more or less, similar to the responses in the 2017 survey. As for the trade agreements with China the responses 'Adversely' or 'Very Adversely' have gone down from 24% to 16% only, and the percentage of respondents perceiving positive impact has increased by 5%, compared to that in the 2017 survey. Moving on to the Pak-Afghan transit trade treaty, the negativity has gone up from 19% to 25%, however, those benefitting from this agreement continue to be 31%, similar to the 2017 survey. In regards to other trade related agreements, the responses generally indicate 'no impact' or a 'positive impact' on OICCI member companies. However, the percentage of respondents having adverse and positive impact of most of the agreements has declined, since most of the respondents have moved to "no impact".





Impact of Trade and Fiscal Policies

Figure 16(a): Responses in 2019

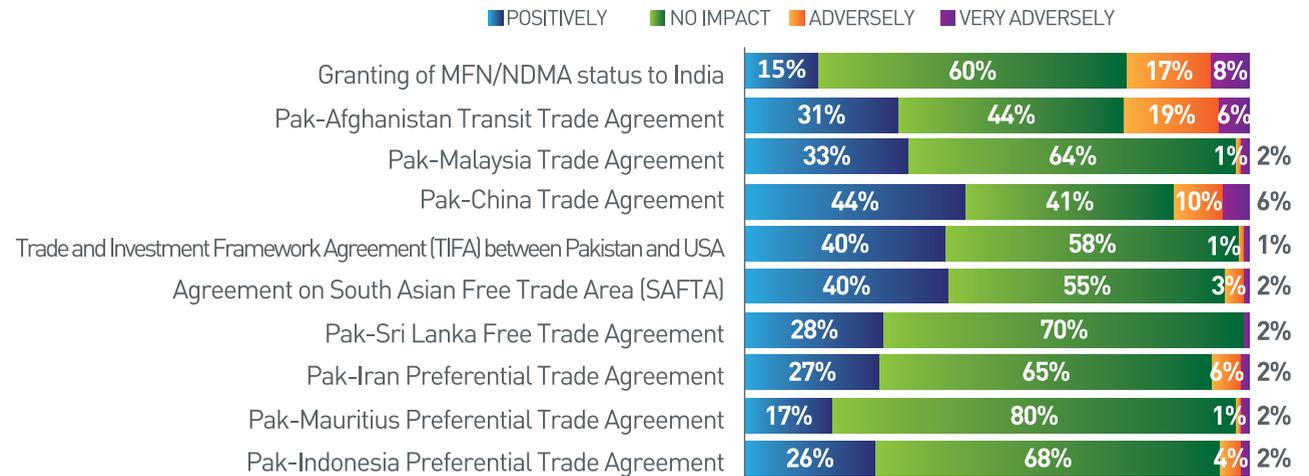
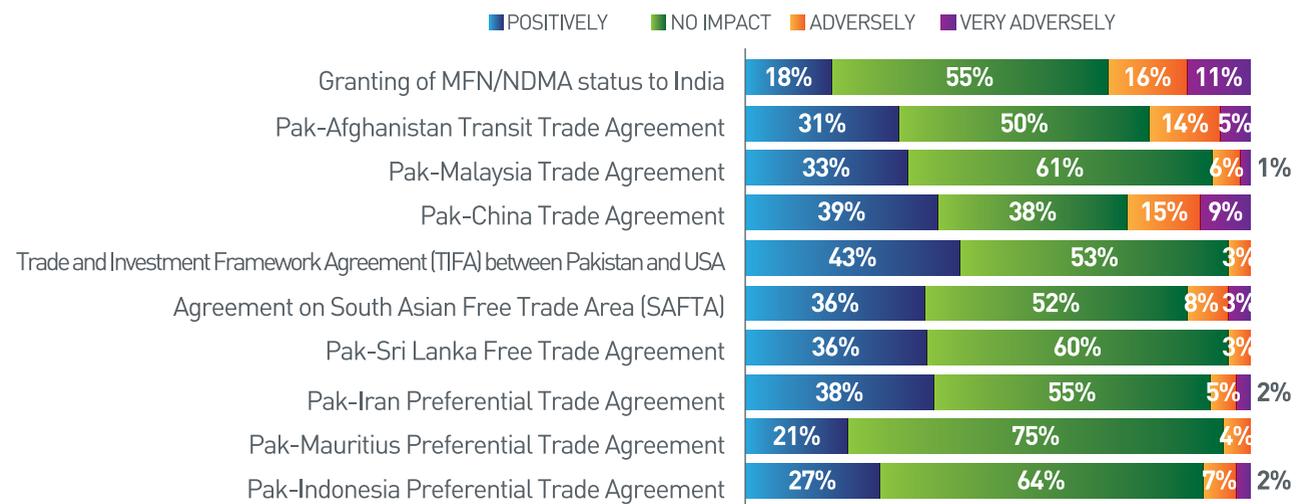


Figure 16(b): Comparative Responses in 2017



Trade with India

Members' opinion about trade with India has not undergone any change since responses recorded in 2017, which could be due to the political tensions between the two countries making economic integration between India and Pakistan difficult to achieve under the current circumstances.

OICCI members seem to believe that MFN status should be granted to India but the government should ensure even handed responses from India as well.

Afghan Transit Trade

The survey shows that more members, than in the 2017 survey, view trade agreements with Afghanistan as having an adverse impact on their businesses. OICCI members have often voiced that agreement paves way for the entry of smuggled goods in to the country, thus leading to lost sales revenue for the companies.

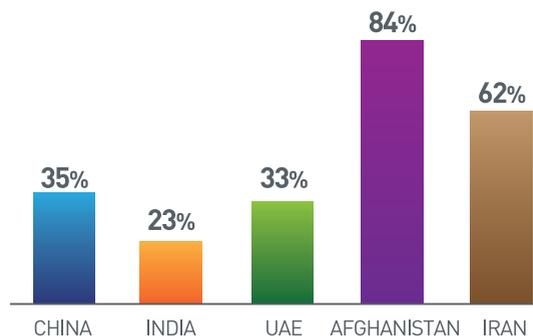
Pak-China Trade Agreement

The percentage of respondents being impacted adversely and very adversely has decreased by 8% and those having positive impact have increased by 5%, compared to the 2017 results. This highlights that businesses in Pakistan are being positively impacted by the bilateral trade ties between Pakistan and China. This could primarily be because of the increased cooperation between the two nations on account of the CPEC projects.

Routes or channels used for smuggling goods

Majority of the respondents believe that smuggled goods arrive in Pakistan through Afghanistan and Iran. This is no surprise due to members' concerns regarding Afghan Transit Trade and smuggling of oil and diesel via Iran.

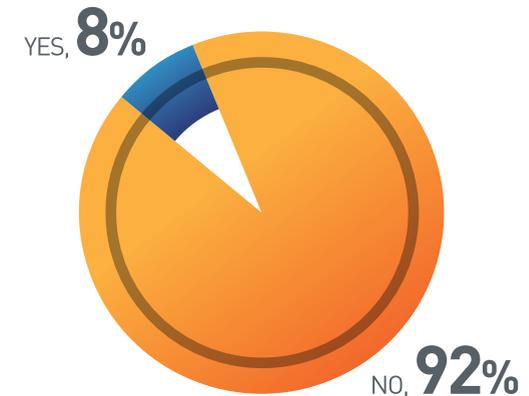
Figure 17: Routes or channels through which smuggled goods arrive in Pakistan



US Government Generalized System of Preferences (GSP)

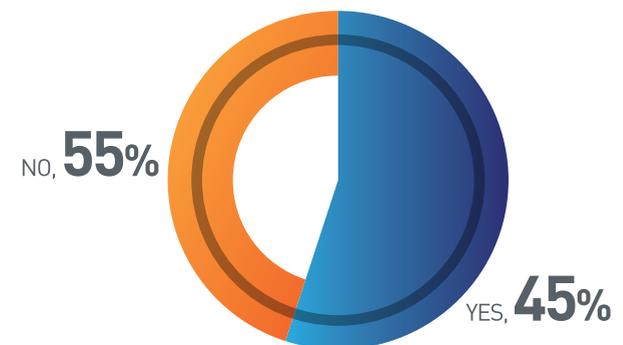
The US government GSP provides tariff reduction for the least developed economies, on various products. The questions below aims to understand the impact of such tariff relief on the businesses and trade in Pakistan.

Figure 18(a): Advantage of GSP to OICCI Members



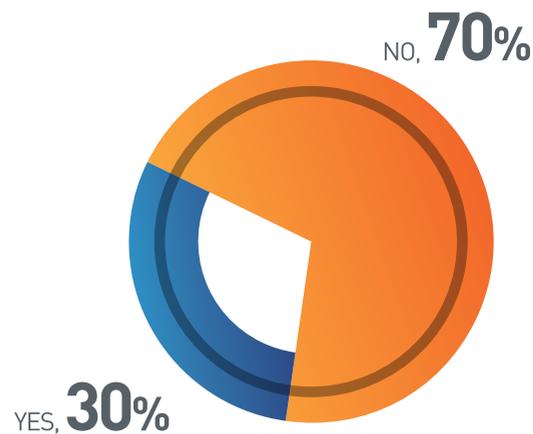
An overwhelming majority of respondents have not taken advantage of GSP in the past one year. Respondents do not find GSP relevant to their business or corporate strategy since they are either not export oriented or GSP does not apply to their business sector e.g. automobile.

Figure 18(b): Awareness regarding the US GSP list that includes agriculture, fisheries, and primary industrial product that are not otherwise duty-free



There is more or less an even distribution between the respondents who are aware and those who are unaware that the US GSP list includes agriculture, fisheries and primary industrial product that are not otherwise duty-free.

Figure 18(c): Awareness regarding textile products that are not in the GSP list yet, but eligible for duty free access



Seventy percent of the respondents are not aware that although textile products are not included in US GSP, certain hand-loomed products are eligible for duty-free access, once Pakistan has signed an agreement with the U.S. to provide certification that the items are hand-loomed products being exported.

FISCAL MEASURES

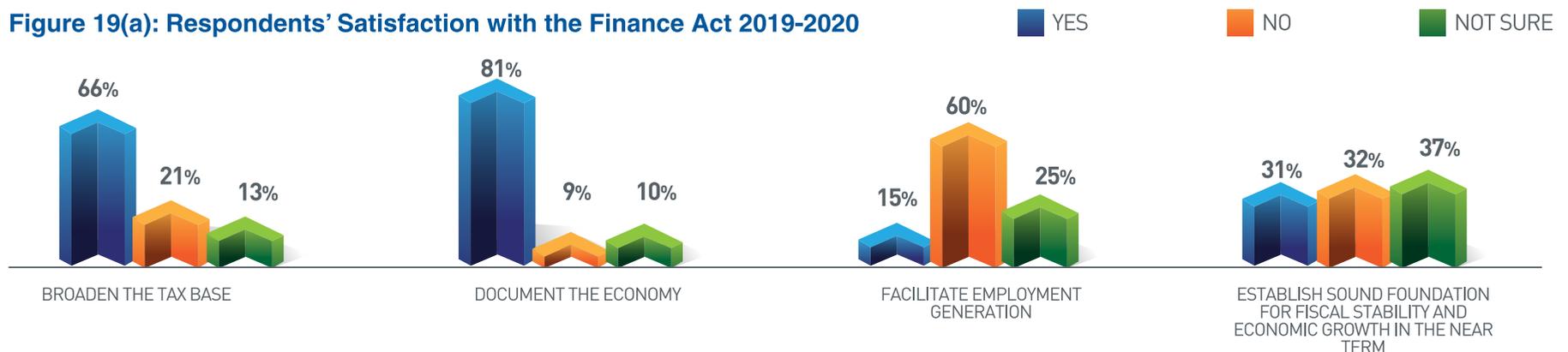
Taxes and Levies

The majority of OICCI members appreciate the government’s bold and innovative measures in the Finance Act 2019-20, which aim to enhance the documentation of the economy, broaden the tax base and eventually lead to boost the tax collection in the country. OICCI is positive that such actions supported by a robust enforcement and improved trust between FBR officials and the taxpayer will help establish a new tax culture in the country. However, members express their dissatisfaction with some of the matters like Final tax replaced with minimum tax, Audit provisions, Taxation on Banking Companies – Rule 1

of Seventh Schedule, Withholding sales tax, Sales tax on the basis of minimum value addition.

- **As depicted in Figure 19(a), a significant portion of respondents believe that the government has taken sufficient measures for broadening tax base and documenting the economy in the Finance Act 2019-2020, which will help in improving the taxation framework.**
- **A big majority of respondents believe that this Finance Act does not facilitate employment generation.**
- **However, there have been mixed sentiments as whether these fiscal measures will help to establish sound foundation for fiscal stability and economic growth in the near term.**

Figure 19(a): Respondents’ Satisfaction with the Finance Act 2019-2020



An overwhelming majority of respondents, who over the last few years, have been increasingly voicing their concerns against ad-hocism and surprises are not only concerned about increase in cost burden on the companies but, more importantly on the damage to the confidence level of the investors.

Respondents have highlighted the following key taxation issues faced by their organization, which they mention is increasing the cost of doing business and making the business environment cumbersome:

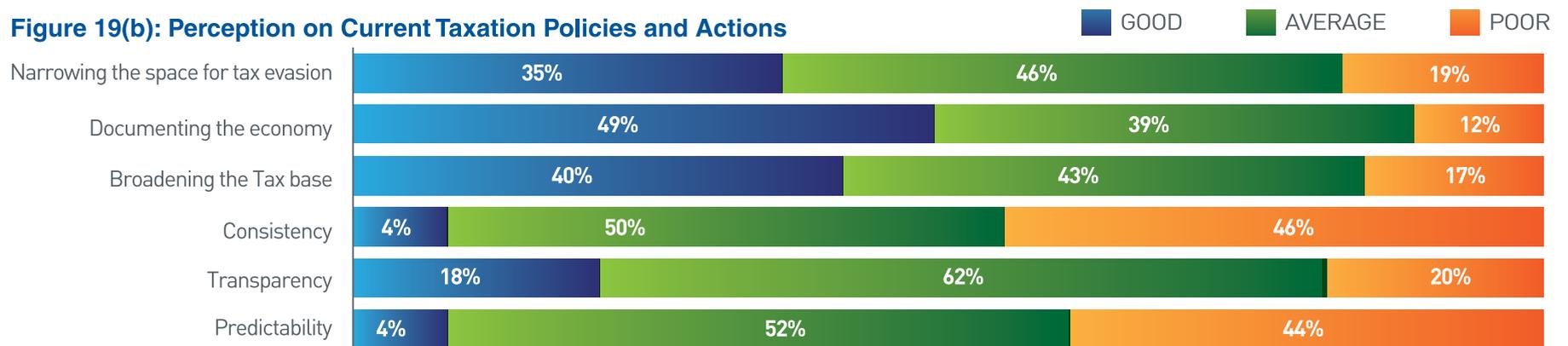
- Withholding tax (WHT) regime – WHT on contracts, at import stage, on Life Takaful products, WHT exemption certificate and over monitoring of WHT.
- Higher Corporate Income and Sales Tax Rates and Super Tax on certain

sectors including banks and E&Ps

- Lack of interprovincial coordination and different Jurisdiction issues between federal and provincial governments increasing tax complexity.
- Unnecessary delays in tax refunds are blocking working capital. Refund verification and litigation are extremely difficult processes.
- Excessive issuance of unnecessary notices and demands from FBR and SRB
- Inter-corporate Dividend Taxation takes away the incentive promised at the time of investment.
- Under invoicing and wrong declaration at import stage by tax evaders

- Increased import duties due to imposition of regulatory duties
- Multiple Tax audits with the intention of squeezing compliant taxpayers
- Minimum tax regime for various streams of income
- Figure 19(b) indicates that a majority of respondents are unhappy with taxation policies that are unpredictable, inconsistent and short-term. While members showed contentment for documentation of the economy, transparency and broadening the tax base. It is important to note that, members rated the recent fiscal and taxation policies more transparent and predictable, as compared to the 2017 survey and the last Finance Act at that time.

Figure 19(b): Perception on Current Taxation Policies and Actions



CPEC – CHINA PAKISTAN ECONOMIC CORRIDOR

Figure 20(a): Members’ views on CPEC are positive for improving the investment climate in Pakistan over the next 5 years

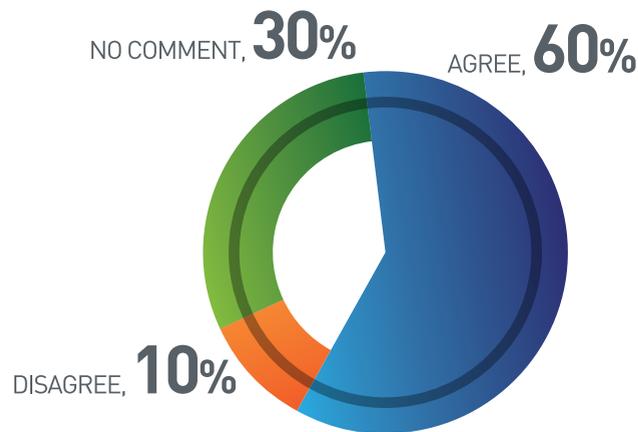
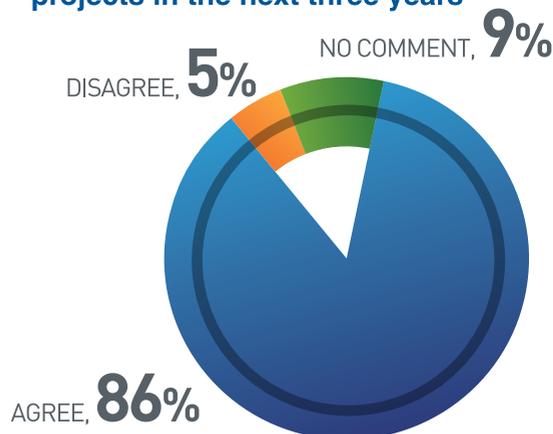


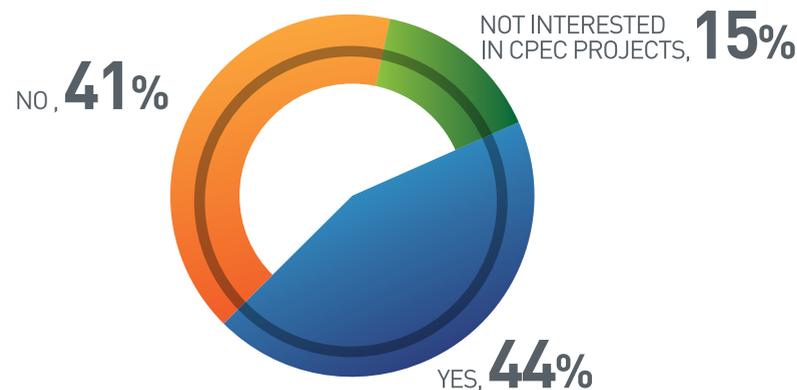
Figure 20(b): There are investment opportunities for your company in leveraging the benefit of the CPEC projects in the next three years



According to the responses, it seems that members are quite optimistic about the CPEC projects. Majority of the respondents feel that these projects would improve the investment climate in Pakistan and that there are enough opportunities for companies to leverage the benefit of these projects in the next three years.

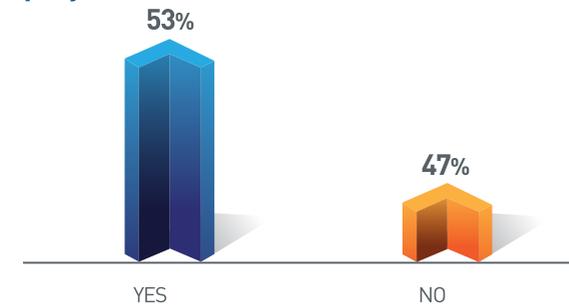
However, members have expressed concerns over the negotiations between the two countries and recommended that the government should be vigilant in opening doors to the Chinese, as this could lead to dumping of cheap Chinese goods in Pakistan and employment of Chinese workers, thus adversely impacting the local industry and the foreign companies operating in Pakistan, as well as the employment rate of the country.

Figure 20(c): Do you have sufficient information about the scope and opportunities for your business under ongoing CPEC projects?



Only 44% of respondents are aware of the opportunities available to them in the ongoing CPEC projects and the government needs to do more to inform investors about all aspects of CPEC.

Figure 20(d): Is your organization interested in participating in CPEC projects?



More than half of the respondent companies are interested in participating in the CPEC projects.

How does CPEC influence the choice of foreigners to invest in Pakistan, as compared to the following regions?

Figure 20(e): Response in 2019

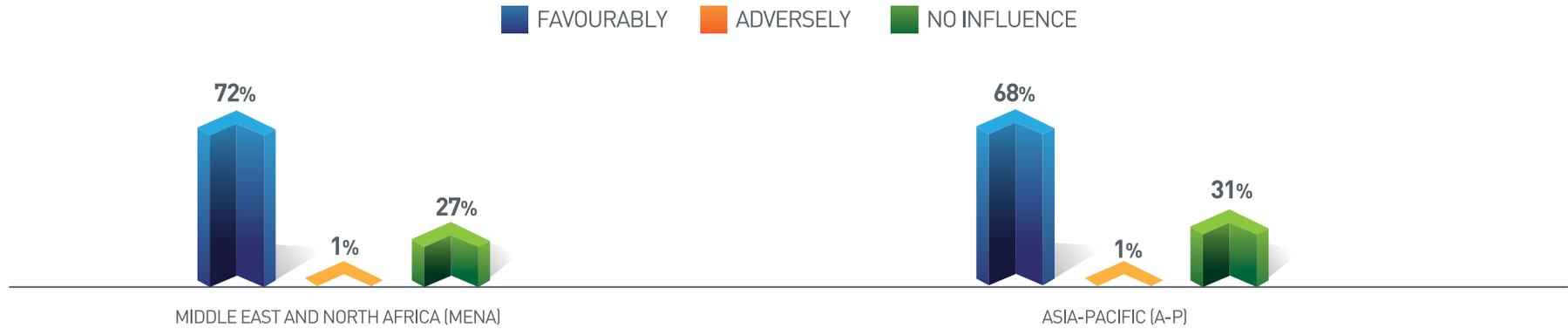
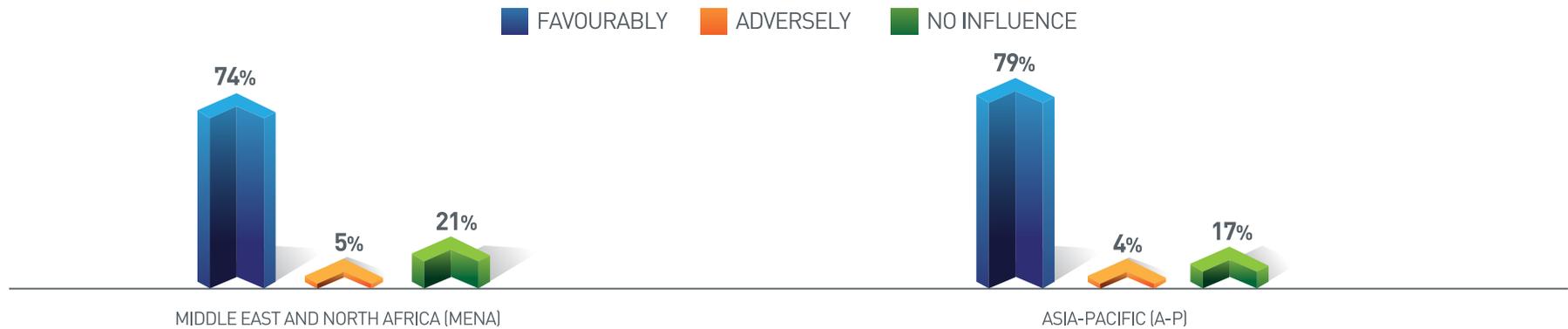


Figure 20(f): Response in 2017



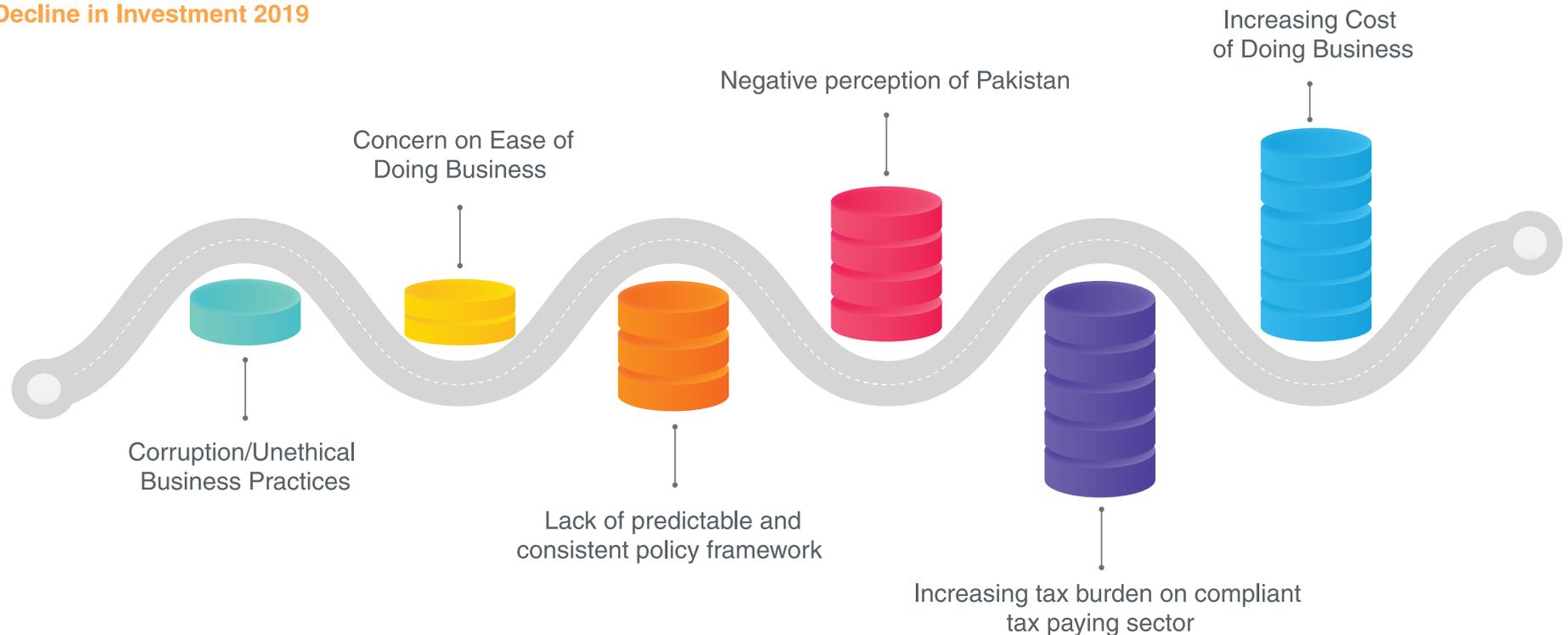
Majority of the respondents believe that CPEC has a favorable impact on investment decisions. However, as compared to 2017 results, this percentage has reduced, especially for Asia-Pacific. An increased percentage of respondents does not see CPEC as having influence on the investment decisions of foreigners to invest in Pakistan over Asia and MENA regions. It is noteworthy that the percentage of respondents who opine that CPEC adversely affects foreign investors' choice has become quite negligible.



SECTION VI: DECLINE IN INVESTMENT, INCLUDING NEW FOREIGN DIRECT INVESTMENT (FDI)

In 2019, the increasing 'Cost of Doing Business' has replaced 'security concerns' as the biggest factor for the decline in FDI for the past few years. The contributing factors to the increase in Cost of Doing Business include ; currency devaluation, higher borrowing cost, continuous increase in per unit cost of utilities, all of which, pose serious challenges for businesses.

Figure 21(a): Factors Identified for Decline in Investment 2019



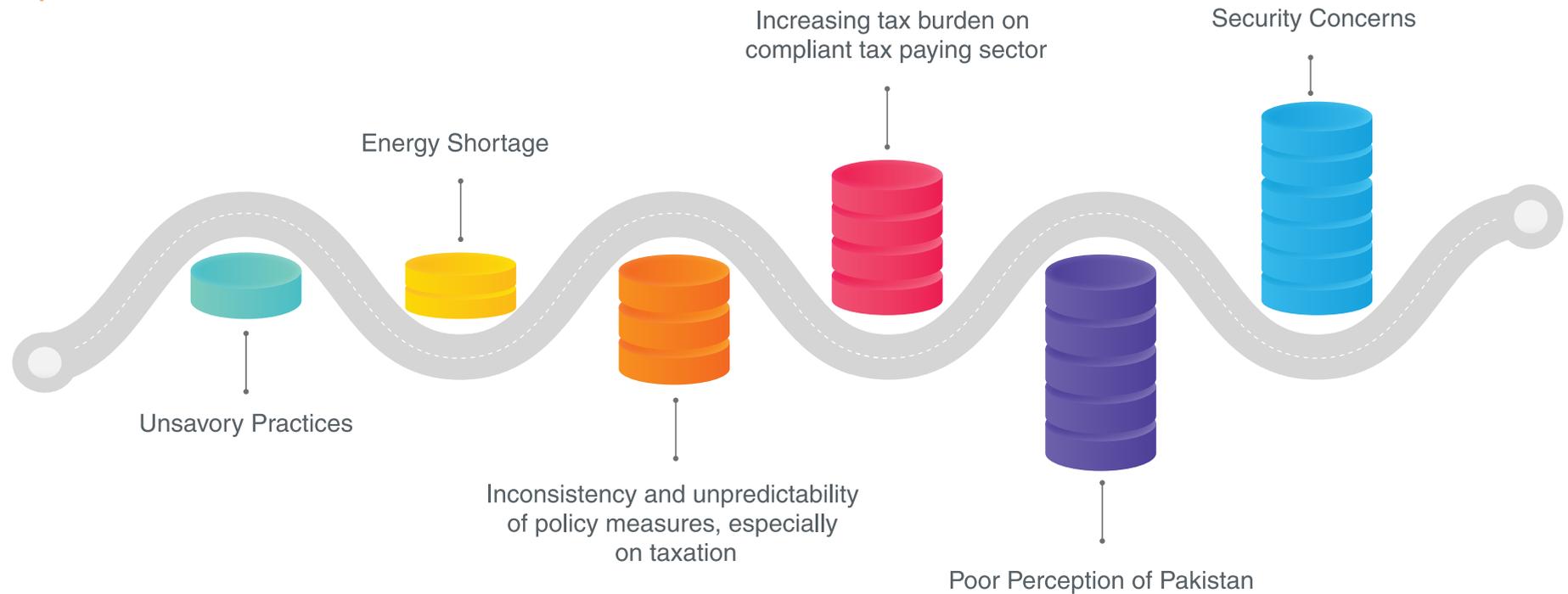
Increasing tax burden on the compliant sector and poor perception of Pakistan, which were ranked third and second, respectively, in 2017, have switched ranks in 2019. This reinforces the fact that there is a need to broaden the tax base with a corresponding reduction of the tax burden on the existing compliant tax-payers and the need to improve infrastructure in commercial and industrial centers of the country on top priority.

Other reasons among the top six factors identified by the respondents include; the unpredictable and inconsistent policy framework, concerns on 'Ease of Doing Business' and Corruption and/or Unethical Business Practices.

In addition to the top six factors affecting FDI, respondents have highlighted several other factors impacting FDI inflows in Pakistan. These include; Gap in policy incentives and its implementation, poor ranking of Pakistan in the World Bank

EODB Survey, lack of ownership and concern on timely access to decision makers to resolve FDI issues, security concerns, insufficient availability of state of the art infrastructure (logistics and telecommunication etc.), growing regulatory controls, lack of clarity on investment policy of the country vs. FTA benefits, etc., insufficient protection of Intellectual Property Rights (Patents, Trade Marks, copyrights), interprovincial coordination issues and greater involvement of judiciary in commercial issues.

Figure 21(b): Comparative Responses in 2017



INVESTORS' CONFIDENCE

Despite the availability of a large and growing domestic market, favorable demographics and strategic geo-political location with access to China and Central Asia, one of the key issues identified by the respondents is the 'negative perception of the country'. This is a failure of positive

communication and projection through local and international media as well as to external stakeholders vis a vis other platforms.

Almost three quarters of the respondents indicate that their parent companies are

influenced by negative image of Pakistan in the foreign media or other sources. This is despite the fact that there has been an increase in the number of visits by the leadership of several large foreign companies operating in Pakistan (by over 65% in one year).

Figure 22(a): Investment plans affected by the Negative Perception of Pakistan

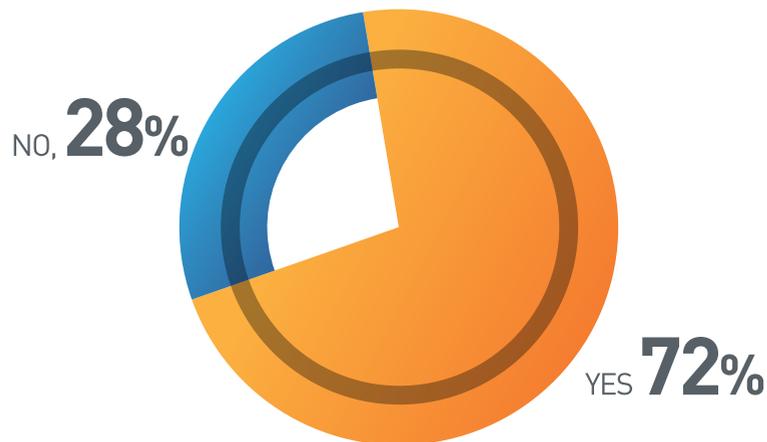
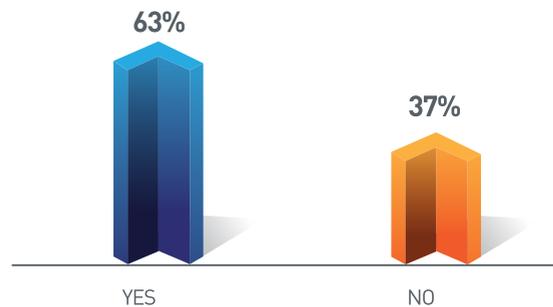


Figure 22(b): Willingness to recommend new FDI in Pakistan, based on the current Business Climate in 2019



The strong belief of the CEOs of OICCI member companies, 50 of whom are on the list of Fortune magazine's top 500 companies, is reflected in the response here as almost three-fourths of the members, indicated that they will recommend further new FDI to Pakistan. This is a very positive sign for the economic outlook of the business sector in Pakistan.

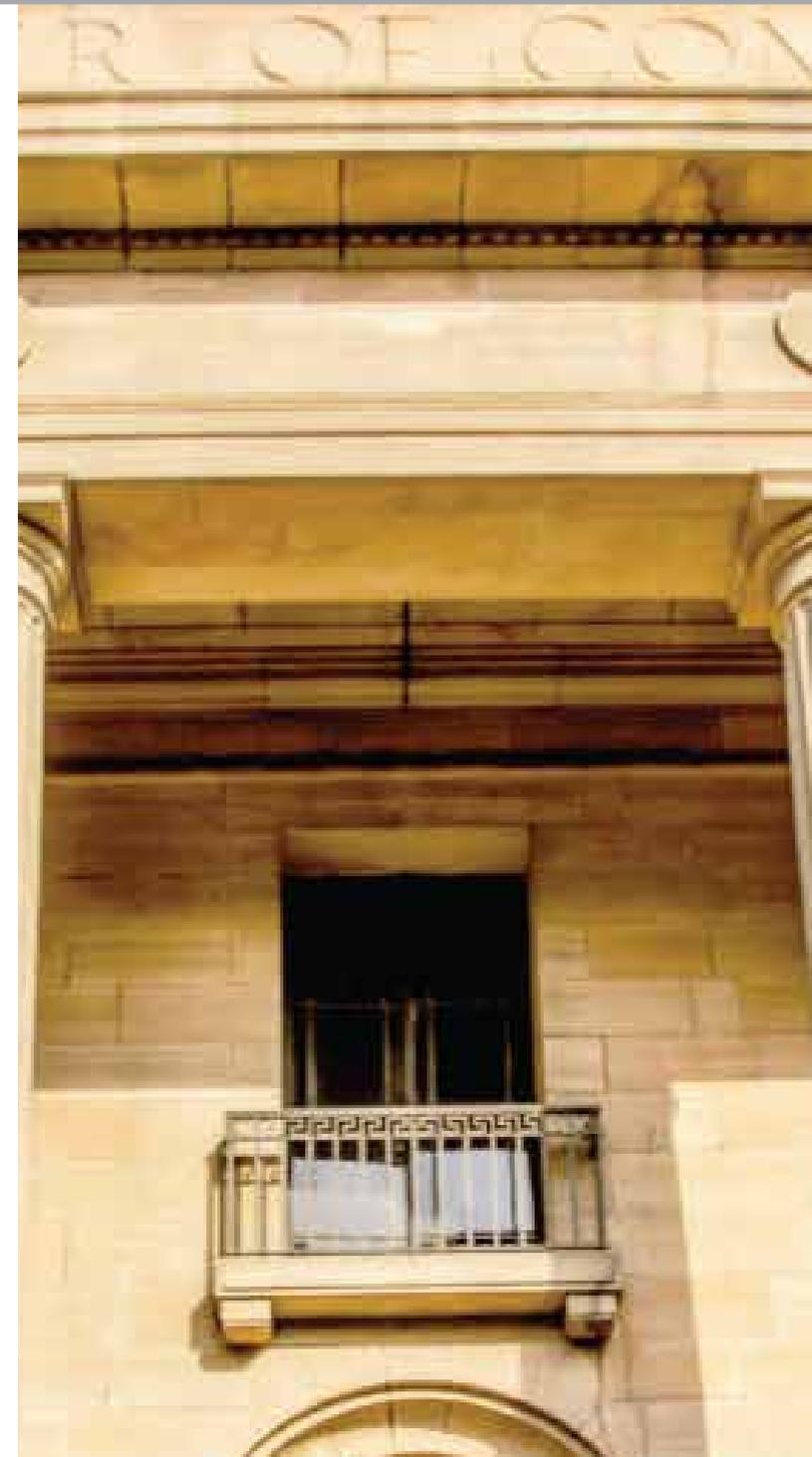
Figure 22(c): Parent company projecting new FDI in the region



Two-thirds respondents indicated that their parent companies are planning to make new investment in the Asian region. However in order for Pakistan to secure a sizeable proportion of this planned foreign investment, there has to be improvement in investment climate in comparison with other regional countries. The members listed the three important areas of improvement as the key to

attract FDI in the country in next two years, which are 'to accelerate ease of doing business actions', 'improve the perception of the country' and 'promote exports to reduce the trade deficit'.

Respondents showing their unwillingness to recommend new investments in Pakistan list these factors: uncertain economic and political situation, inconsistent laws and regulations, unpredictable business environment, increasing interest rates and lack of exchange rate clarity as well as lack of IPR enforcement, substantial delays in regulatory approvals, lack of a 'Level Playing Field', unfavorable technical infrastructure and incompetent governance.



SECTION VII: BUSINESS / INVESTMENT PLANS AND SELECTED FINANCIAL NUMBERS

GROWTH IN THE NEXT 2-3 YEARS

This figure clearly indicates the impact of the difficult economic situation on the investment and growth in the country. As compared to the 2017 survey, a significant majority of the respondents assess the overall outlook for global as well as their business sector to be in the phase of decelerating growth in the next 2-3 years

Figure 23(a): Future Business Outlook

■ ACCELERATING GROWTH
 ■ DECELERATING GROWTH
 ■ ACCELERATING DECLINE
 ■ DECELERATING DECLINE
 ■ NO CHANGE

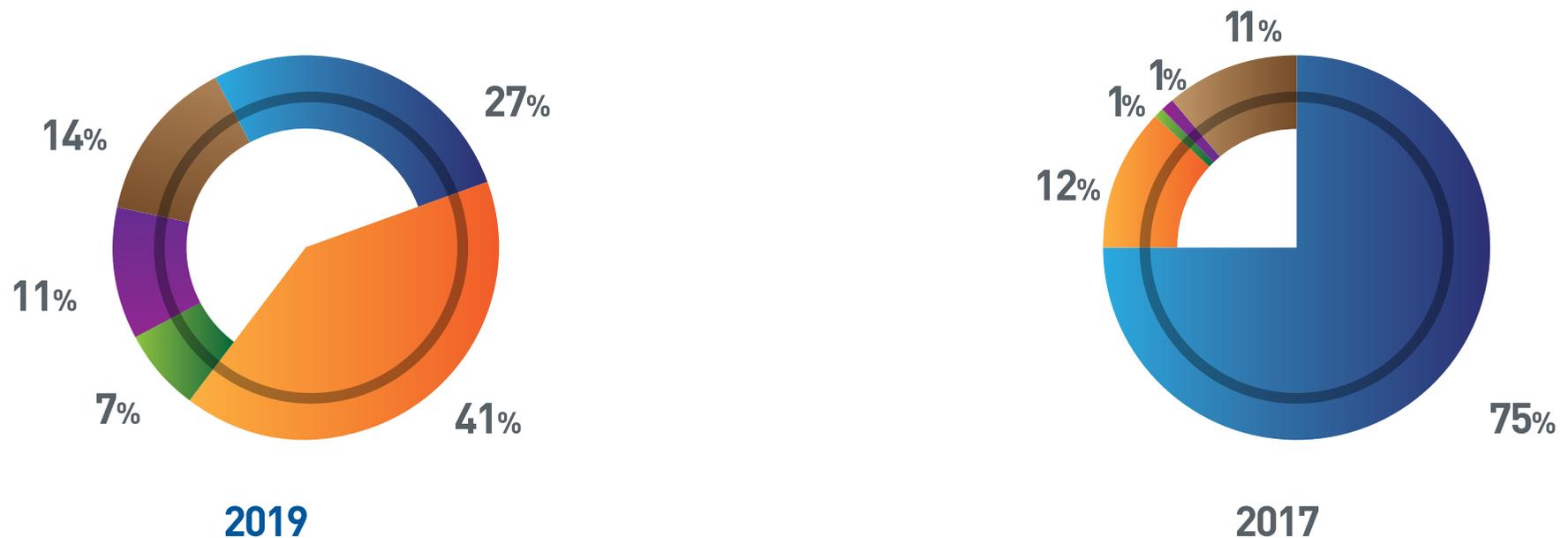
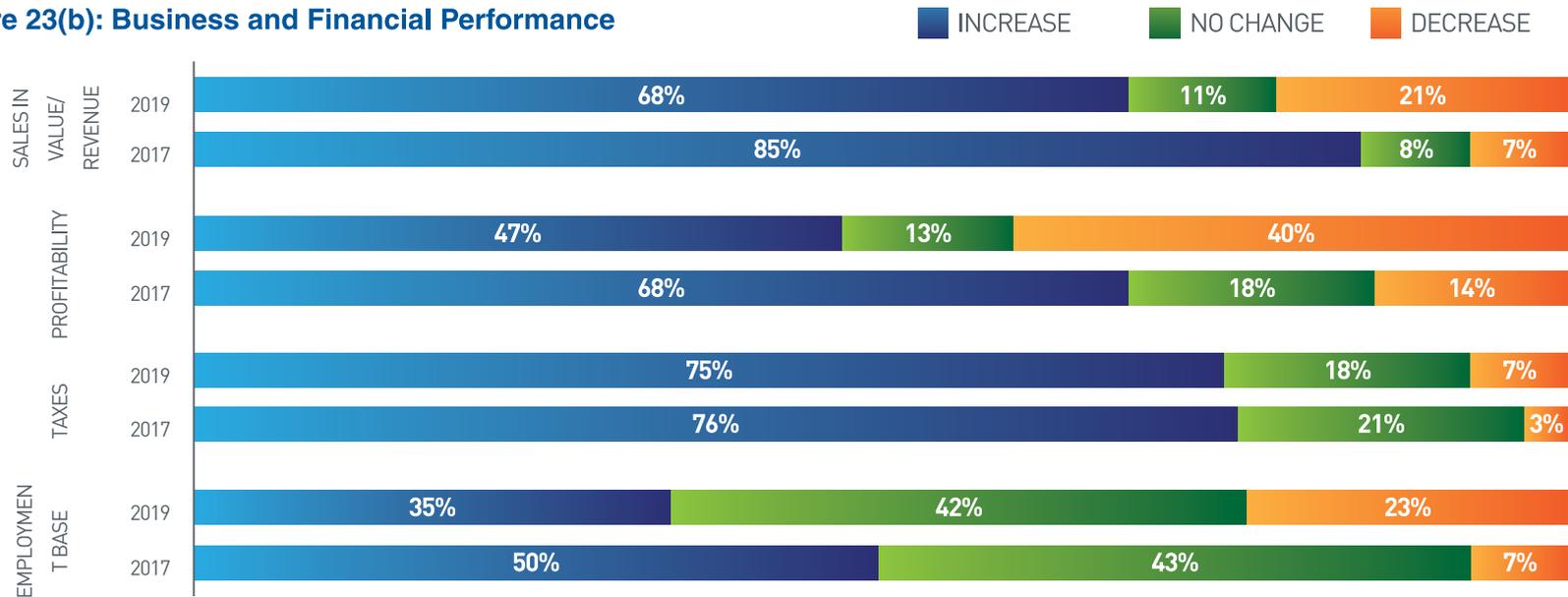


Figure 23(b): Business and Financial Performance



Although majority of the respondents anticipate a decrease in all the parameters; employment base, taxes, profitability and sales revenue, the OICCI members are bullish about the future growth, as clearly shown in figure 23(b).

- In terms of employment base, almost three-fourths of the respondents expect their headcount to either increase or remain the same.
- Over two-thirds of the respondents expect an increase in their sales revenue and nearly half the respondents have indicated increase in profitability.

- Almost a quarter of respondents expect reduced sales, revenues and employment, while equal proportion showed concerns for profitability.
- Low profitability responses are mostly from Pharmaceutical and Oil/Energy sectors. Some members from the Chemicals/Pesticides/Fertilizer/Paint/Cement sector also anticipate profitability to decline.
- On average the magnitude of decrease for each of the parameters is expected to be between 15-20%, as compared to 2017 survey.

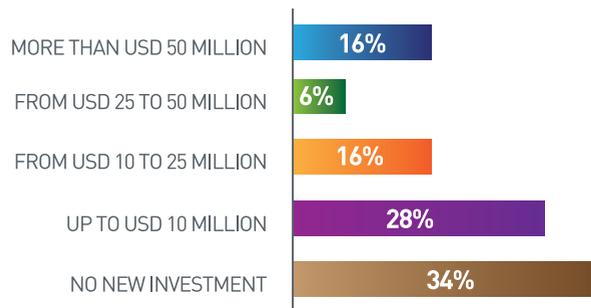
FUTURE INVESTMENT OUTLOOK OF PAKISTAN

Total investments indicated by respondents, amount to approximately \$ 2.5 billion during the next 5 years. This is inconsistent with the fact that members actually invested over \$ 5.3 billion in new capital expenditure in the last two years (2017 and 2018). OICCI is aware of some news regarding large scale investments of several members, through the corporate grapevine. Most members at time of this survey may not have investment plans beyond the next couple of years or, perhaps, the negative issues plaguing the businesses today have impacted the responses. It may be noted that in the 2017 survey, a similar investment amount was indicated over the next 5 years but actual investment in the last 2 years, alone, was well above that amount.

New Investment

The most important point is that, despite the difficult economic situation, devaluation of Pak rupee, rise in inflation and higher interest rates, the OICCI members demonstrate confidence in investing in Pakistan, as depicted in Figure 24(a).

Figure 24(a): Planned investment over the next 1-5 years

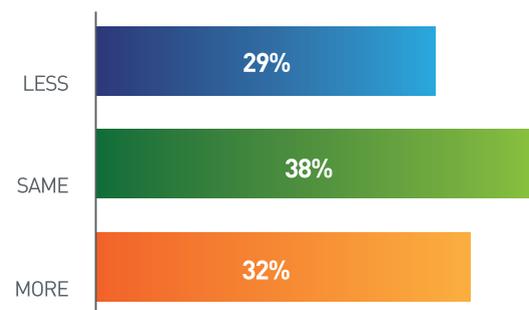


OICCI has always spoken up for investment in the country, highlighting Pakistan’s regulatory environment which is amongst the most investor-friendly in the world, with no restrictions on foreign ownership, repatriation of profits or hiring of expatriates. Tax rates in Pakistan also match rates in the regional countries. Additionally, there are tax incentives for investments. Historically, foreign investment returns in Pakistan have been high – an analysis of 56 OICCI members listed on the PSE reveals that their CAGR 2009-2018 in respect of profitability is highly competitive with any other country in the world.

With a population of over 200 million people, out of which the estimated middle-class is of 50-80 million consumers, favorable demographics, history of good returns for foreign investors already operating in Pakistan and several other positive factors, the case for investing in Pakistan needs to be marketed appropriately by the authorities and other stakeholders.

The decision makers in the respective headquarters, of member companies, based outside Pakistan, are fully updated about real opportunities, as well as constraints, for foreign investors in Pakistan, whilst the full potential of doing business in Pakistan has not yet been fully harnessed by domestic and international investors. Although the important point depicted in Figure 24(b) is that, two-thirds of OICCI members have planned for new investment, showing their confidence in Pakistan.

Figure 24(b): New planned investment vs. comparative previous period



- A significant portion of the respondents have shared their plans to launch two to three new products / services within the next two years, with some respondents plans indicating launch of eight to nine new products/services.

Whilst few respondents indicated fresh new foreign equity injection, most of the respondents have indicated that new investments will be made from retained earnings and local borrowing.

Sectors for best opportunities for investment

A significant number of respondents identified the following sectors offering the best opportunities for investment in Pakistan in the next 5 years: ‘Energy & Power’ is considered to be the sector with the most potential, which was further classified as Energy Distribution, Production, Infrastructure, Network, Mining and alternate/ Renewable Energy projects. ‘Infrastructure Development, Transportation and Logistics’ being the second prospective sector, followed by ‘Agriculture, Corporate Farming and Agro based industries’ (like: agriculture / farming / livestock), ‘Information Technology and Digitalization’ (e.g. Export, Software Applications Development and E-Commerce) and ‘Food and Consumer Goods’. Some of the respondents also mentioned Healthcare, Pharmaceutical, Textiles, Tourism, Food Processing and Telecommunications sectors offering huge investment aptitudes.

Key Factors Impacting Future Investment

The respondents have also identified the top seven important key aspects, necessary for attracting investment/ FDI in a country, based on which the investors make their future investment decision: 'Economic Environment', 'Market Size', 'Political Stability', 'Security, Law & Order Situation', 'Fiscal and Tax Incentives for Investment', 'Regional Environment and Opportunities' and 'Labour Cost and Productivity'.

It is very evident that Pakistan is somewhat out of sync in many of these elements as compared to peer countries in the region. Recent developments in respect of Pak rupee devaluation, although a plus point for new foreign investors, is a negative one for those already operating in Pakistan. Other recent negatives like increase in inflation, higher cost of borrowing, introduction of strong new policies whose benefits to the compliant sector may come in the medium to long term but currently posing challenges, and the somewhat uncertain political environment are some of the elements which tend to upset the investors' confidence, despite having a good market size, low labor cost and improved security situation and improvement in World Bank – EODB rankings, resulting in Pakistan not being able to attract the large portion of potential investment in the region.

SELECTED FINANCIAL INFORMATION



- The numbers above are based on members' financial statements for the year ended December 31, 2018 or earlier on June 30, 2018, 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 the information downloaded from financial statements of listed companies.

RESEARCH METHODOLOGY

The 2019 Perception Survey Questionnaire focused on seven broad areas, within which several issues of interest to current members and potential investors were addressed. These were:

1. **Business Environment**
2. **Top Business Challenges**
3. **Governance**
4. **Digitalization**
5. **Trade and Fiscal Policy**
6. **Decline in Foreign Direct Investment (FDI)**
7. **Business/Investment Plans and Selected Financial Numbers**

The Perception and Investment Survey 2019 incorporates new developments impacting the corporate sector since the last survey was done in 2017.

The survey's findings are represented in percentages which are easier to follow and determine trends. Complementary 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 quick interpretation of results.

As in the previous surveys, the 2019 survey provides a variety of response options for different questions in order to elicit responses which give general positive, negative or neutral position on various aspects of the business environment and governance in the country.

For questions involving 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 member companies which produce fertilizers, pesticides, paints and cement. Likewise, the energy sector refers to OICCI members from the oil and gas industry, including oil marketing companies (OMCs), independent power producers (IPPs) 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.

RESPONDENTS IN 2019

AUTOMOBILE

1. ATLAS HONDA LIMITED
2. HINOPAK MOTORS LIMITED
3. INDUS MOTOR COMPANY LIMITED

BANKING / INSURANCE / FINANCE & LEASING

4. AL BARAKA BANK (PAKISTAN) LIMITED
5. BANKISLAMI PAKISTAN LIMITED
6. CHUBB INSURANCE PAKISTAN LIMITED
7. CITIBANK N. A.
8. DAWOOD HERCULES CORPORATION LIMITED
9. DEUTSCHE BANK AG
10. DUBAI ISLAMIC BANK PAKISTAN LIMITED
11. FAYSAL BANK LIMITED
12. HABIB METROPOLITAN BANK LIMITED
13. INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED
14. INDUSTRIAL PROMOTION SERVICES (PAKISTAN) LIMITED
15. J. P. MORGAN PAKISTAN (PRIVATE) LIMITED
16. JUBILEE LIFE INSURANCE COMPANY LIMITED
17. MEEZAN BANK LIMITED
18. MUFG BANK LIMITED
19. NBP FULLERTON ASSET MANAGEMENT LIMITED
20. ORIX LEASING PAKISTAN LIMITED
21. PAIR INVESTMENT COMPANY LIMITED
22. PAK OMAN INVESTMENT COMPANY LIMITED
23. PAK OMAN MICROFINANCE BANK LIMITED
24. PAK CHINA INVESTMENT COMPANY LIMITED
25. PAK-LIBYA HOLDING COMPANY (PVT) LIMITED
26. PAK-QATAR FAMILY TAKAFUL LIMITED
27. STANDARD CHARTERED BANK (PAKISTAN) LIMITED

CHEMICALS / PESTICIDES / FERTILIZERS / PAINTS / CEMENT

28. AKZO NOBEL PAKISTAN LIMITED
29. ARCHROMA PAKISTAN LIMITED
30. ATTOCK CEMENT PAKISTAN LIMITED
31. BASF PAKISTAN (PRIVATE) LIMITED
32. BERGER PAINTS PAKISTAN LIMITED
33. CHEVRON PAKISTAN LUBRICANT (PVT) LIMITED
34. CLARIANT CHEMICAL PAKISTAN (PVT) LTD
35. ENGRO CORPORATION LIMITED
36. ENGRO POLYMER & CHEMICALS LIMITED
37. HUNTSMAN TEXTILE EFFECTS PAKISTAN (PRIVATE) LIMITED
38. ICI PAKISTAN LIMITED
39. LOTTE CHEMICAL PAKISTAN LIMITED
40. NALCO PAKISTAN (PRIVATE) LIMITED
41. PAKISTAN OXYGEN LIMITED
42. SYNGENTA PAKISTAN LIMITED
43. ARYSTA LIFESCIENCE PAKISTAN (PRIVATE) LIMITED

ENGINEERING / INDUSTRIAL PRODUCTS

44. EXIDE PAKISTAN LIMITED
45. J&P COATS PAKISTAN (PRIVATE) LIMITED
46. KSB PUMPS COMPANY LIMITED
47. PAKISTAN CABLES LIMITED
48. SCHNEIDER ELECTRIC PAKISTAN (PRIVATE) LIMITED
49. SIEMENS PAKISTAN ENGINEERING COMPANY LIMITED
50. SIGNIFY PAKISTAN LIMITED (FORMERLY PHILIPS PAKISTAN LIMITED)
51. GENERAL TYRE AND RUBBER COMPANY OF PAKISTAN LIMITED (THE)

FOOD / CONSUMER PRODUCTS

52. BATA PAKISTAN LIMITED
53. COCA-COLA BEVERAGES PAKISTAN LIMITED
54. FRIESLANDCAMPINA ENGRO PAKISTAN LTD
(FORMERLY ENGRO FOODS (PVT) LTD)
55. GILLETTE PAKISTAN LIMITED
56. IFFCO PAKISTAN (PRIVATE) LIMITED
57. MONDELEZ PAKISTAN LIMITED
58. PROCTER & GAMBLE PAKISTAN (PRIVATE) LIMITED
59. RAFHAN MAIZE PRODUCTS COMPANY LIMITED
60. SERIOPLAST PAKISTAN (PVT) LTD
61. UNILEVER PAKISTAN LIMITED

IT & COMMUNICATION

62. IBM ITALIA SPA.
63. TERADATA GLOBAL CONSULTING PAKISTAN (PRIVATE)
LIMITED
64. TRG (PRIVATE) LIMITED

OIL / GAS / ENERGY

65. ABB POWER & AUTOMATION (PRIVATE) LIMITED
66. ENGRO POWERGEN THAR (PRIVATE) LIMITED
67. ENI PAKISTAN LIMITED
68. GE INTERNATIONAL OPERATIONS COMPANY INC.
69. KOT ADDU POWER COMPANY LIMITED
70. PAK-ARAB REFINERY LIMITED
71. PAKISTAN PETROLEUM LIMITED
72. PAKISTAN REFINERY LIMITED
73. PREMIER OIL PAKISTAN HOLDING BV
74. ROUSCH (PAKISTAN) POWER LIMITED
75. SHELL PAKISTAN LIMITED
76. TETHYAN COPPER COMPANY PAKISTAN (PRIVATE)
LIMITED
77. HUB POWER COMPANY LIMITED (THE)
78. TOTAL PARCO PAKISTAN LIMITED
79. UCH POWER (PRIVATE) LIMITED

80. UNITED ENERGY PAKISTAN LIMITED
81. ASIA PETROLEUM LIMITED
82. ATLAS POWER LIMITED
83. ATTOCK PETROLEUM LIMITED
84. ATTOCK REFINERY LIMITED

PHARMACEUTICAL

85. ABBOTT LABORATORIES (PAKISTAN) LIMITED
86. ASPIN PHARMA (PVT) LIMITED (FORMERLY OBS
HEALTHCARE (PRIVATE) LIMITED)
87. BARRETT HODGSON PAKISTAN (PRIVATE) LIMITED
88. BAYER PAKISTAN (PRIVATE) LIMITED
89. CHIESI PHARMACEUTICALS (PRIVATE) LIMITED
90. ELI LILLY PAKISTAN (PRIVATE) LIMITED
91. GLAXOSMITHKLINE PAKISTAN LIMITED
92. LUNDBECK PAKISTAN (PRIVATE) LIMITED
93. MERCK (PRIVATE) LIMITED
94. OTSUKA PAKISTAN LIMITED
95. PFIZER PAKISTAN LIMITED
96. RECKITT BENCKISER PAKISTAN LIMITED
97. SANOFI AVENTIS PAKISTAN LIMITED
98. SERVIER RESEARCH & PHARMACEUTICALS PAKISTAN
(PRIVATE) LTD
99. WYETH PAKISTAN LIMITED

PRINTING & PUBLISHING

100. OXFORD UNIVERSITY PRESS
101. SICPA INKS PAKISTAN (PVT) LIMITED

SHIPPING & AIRLINES

102. PAKISTAN INTERNATIONAL CONTAINER TERMINAL
LIMITED
103. QASIM INTERNATIONAL CONTAINER TERMINAL
PAKISTAN LIMITED
104. SOUTH ASIA PAKISTAN TERMINALS LIMITED

TELECOMMUNICATIONS

- 105. PAKISTAN MOBILE COMMUNICATIONS LIMITED
- 106. PAKISTAN TELECOMMUNICATION COMPANY LIMITED
- 107. TELENOR PAKISTAN (PRIVATE) LIMITED

TOBACCO

- 108. PAKISTAN TOBACCO COMPANY LIMITED
- 109. PHILIP MORRIS (PAKISTAN) LIMITED

TRADING & OTHER SERVICES

- 110. ABUDAWOOD TRADING COMPANY PAKISTAN (PRIVATE) LIMITED
- 111. ARABIAN SEA ENTERPRISES LIMITED
- 112. BELTEXCO LIMITED
- 113. DHL GLOBAL FORWARDING PAKISTAN (PRIVATE) LIMITED
- 114. DHL PAKISTAN (PVT) LTD
- 115. DUPONT PAKISTAN OPERATIONS (PRIVATE) LIMITED
- 116. ITOCHU CORPORATION
- 117. MARUBENI CORPORATION
- 118. METRO PAKISTAN (PVT) LTD
- 119. MITSUBISHI CORPORATION
- 120. MITSUI & COMPANY LIMITED
- 121. SGS PAKISTAN (PRIVATE) LIMITED
- 122. SIEMENS HEALTHCARE (PRIVATE) LIMITED
- 123. SPGPRINTS PAKISTAN (PRIVATE) LIMITED
- 124. WMGS SERVICES LIMITED (LIAISON OFFICE)







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