Perception and Investment Survey 2015

Overseas Investors Chamber of Commerce & Industry

Representing **35** different countries of our members

Oldest Business Chamber in South Asia

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

Vision

To be the premier body for promoting new and existing overseas investment in Pakistan by leveraging world-class expertise of OICCI members for the benefit of the investor and the country.

Mission

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

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OICCI members come from all over the world

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Introduction

About us

The OICCI is the collective voice of all major foreign investors in Pakistan. Established over 150 years ago in 1860, primarily as a Business Chamber for foreign investors, the OICCI is today, not only engaged in the promotion and protection of existing foreign investment in the country and to attract new foreign investors, its diversified activities contribute significantly to supporting commerce and industry across the country.

The 195 OICCI members, from 35 different countries, have a presence in 14 sectors of the economy and contribute over thirty three percent of the total tax revenues annually collected by the Federal and provincial revenue authorities in Pakistan and employ over one million persons, directly or indirectly in support of their business activities. OICCI member companies have assets of over US$ 77 billion and 57 OICCI member companies are listed on the Karachi Stock Exchange. Nearly 50 Members are associates of the 2015 Global Fortune 500 companies.

Apart from their business operations, OICCI members realize their corporate social responsibilities and are major contributors to various CSR activities in education, health and other sectors, besides making significant contributions in cash and kind for welfare of people affected by natural calamities.

OICCI is a primary port of call for most international trade delegations who are interested in getting an independent and balanced view of the investment climate in the country.

Important foreign missions in Pakistan also regularly interact with the Chamber, not only to get first hand information on foreign investors' experiences and views, but also to coordinate their own efforts for promoting a conducive and level playing field for foreign direct investment. Incentives offered by the government to investors, experience of OICCI members who are foreign investors, their success stories, are always highlighted at OICCI forums and international investment forums focusing on Pakistan.

OICCI issues policy statements on matters of interest to investors on diversified subjects, including Taxation, Intellectual Property Rights, Free Trade Agreements and other matters related to business. The annual OICCI Taxation Proposals, which include specific points on broadening the tax base and documentation of the economy are widely appreciated by FBR and other stakeholders for their comprehensive and progressive coverage of several issues.

Activities

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

Despite the challenging operating constraints, due to which FDI inflow in to the country has been restricted in recent years, OICCI members invested US$ 1.4 billion in capital expenditure in the year 2014, mostly from their own resources.

OICCI also communicates with stakeholders, conducts research and disseminates business knowledge, hosts and participates in seminars, promotes good governance by remaining constantly engaged on highlighting regressive policies and making recommendations to address issues in such policies, and also encourages formation of sound opinions and perceptions through business-related surveys.

All such activities are carried out through active dialogue with government, regulatory bodies and other stakeholders in order to assist in formulation of business-friendly policies that serve as a reference point for foreign investors.

OICCI's recent research and publications include:

- Business Confidence Index: November 2015
- OICCI Taxation Proposals 2015-16
- OICCI Corporate Social Responsibility Report: 2014-15

Managing Committee

The OICCI is governed by a 14 member Managing Committee, out of which 8 members and one Vice President are elected annually. The elected Vice President is nominated as the President in the following year which ensures continuity of policy. Only CEOs of member companies are entitled to stand for election. In order to ensure maximum sectorial representation, the elected members have the powers to co-opt three more Managing Committee members. The CE/Secretary General of the OICCI is also a member of the Managing Committee.

Criteria for Membership

OICCI's Articles of Association stipulate the following criteria for membership:
Any party being a "foreign national" with permanent place of business in Pakistan engaged in commerce and industry within the country is eligible for ordinary membership.

The Articles of Association define "foreign national' as:

I. All bodies incorporated in Pakistan with 100% paid-up share capital owned by a foreign holding company but with the proviso that paid-up foreign share capital is not less than US $ 0.3 million or equivalent
II. All bodies incorporated in Pakistan with 26% or more paid-up capital by a foreign holding company, with a minimum of US $ 0.5 million foreign shareholding. The foreign shareholder must operate in at least two other jurisdictions / countries besides Pakistan and have a group paid-up share capital in excess of US $ 5 million or equivalent
III. All bodies incorporated outside Pakistan, the majority shareholder of which foreign incorporated company must also operate in at least two other jurisdictions / countries besides Pakistan and have group paid-up share capital in excess of US $ 5 million

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 foreign investors, the Government of Pakistan and the media to judge the overall business and economic climate of the country, as perceived by OICCI members at a particular point in time.

The informed viewpoint, coming out of the survey, has the potential to lead to meaningful debate in the right forums, enabling appropriate policy reform by regulators for the benefit of commerce and industry and, by extension, to the betterment of the economy of the country.

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 2013.

Scope of the Survey

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

Although the questionnaire of this survey maintains a strong link to previous surveys to enable comparisons between two survey points, it was updated and modified to seek specific input on current business issues as well as regulatory, economic and socio-political developments in the country impacting OICCI members directly or indirectly. The latest survey, for instance, gives weightage to matters relating to the provincial governments also, since many subjects falling under provincial domain, after the 18th constitutional amendment, have only recently been taken into the provincial fold. Although the survey should be analyzed in its proper context, as it is limited to OICCI members with a stake in local business and industry, and, as such, documents perceptions of foreign investors, indicating only some trends, it can, nevertheless, serve as a guideline for policy makers for formulation of policies which make Pakistan an attractive country from an investor's point of view.

It is the responsibility of the management of member companies to answer survey questions in line with their respective perceptions. OICCI's role is limited to gathering data and reflecting a consolidated opinion based on their responses. OICCI is hopeful that the publication of the survey results and conveying them to government and its regulatory bodies will contribute to further improving the investment climate of the country.

Executive Summary

The Perception and Investment Survey 2015 was conducted between September and October 2015. Therefore, perceptions coming out of this survey reflect credible recent feedback of foreign investors on key aspects of doing business in Pakistan.

The overall results of the survey are positive but with a mixed message. On the one hand respondents have highlighted their despondency with several aspects of doing business in Pakistan, as well as the less than the desired support received from various government ministries and Regulatory bodies, whilst on the other hand, 82 percent of the respondents have stated that they foresee continuing growth in the overall outlook for their business over the next 2-3 years, indicating that they are generally satisfied with the performance of their respective companies. With a population of nearly 200 million people and a middle-class estimated between 50 million to 70 million, bestowed with several natural resources, availability of adequately qualified human resource and the English language spoken across the country, economists and business analysts recognize the potential of the country, but also agree that this potential remains largely untapped due to issues of various aspects of governance. Therefore, the mix of negative and positive sentiments of the respondents is understandable.

The potential for business growth and opportunities in Pakistan has resulted in nearly 60 percent of the respondents indicating their plans to make new investments, out of which more than seven out of ten 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, sixty nine respondents plan to increase their employment base. The planned investment in business and human capital is expected to boost revenue and profitability, as 84 percent of the respondents are expecting increased sales and 79 percent expect their profits to rise. This is good news for the country's economy and the youth entering the job market and should lead to enhanced contribution to the national exchequer and positive impact on both the economy and the society.

Total investments indicated by respondents amount to approximately US$ 3 billion only, over the next 5 years, which is not a very significant amount considering the fact that OICCI members invested US$ 1.4 billion in the year 2014 alone, according to a separate survey done in June 2015. This low level of investments despite the considerable potential of the country and the incentives offered to foreign investors can be correlated to a number of negative business related responses in this survey. It may however be noted that in the 2013 survey also, a similar investment amount was indicated over the next 5 years but members have already invested close to that amount in the last 2 years, beating their own estimates.

In respect of "Ease of Doing Business", where Pakistan business climate has been compared with ten regional countries, a noticeable point is that respondents rate India marginally higher than Pakistan. In the last survey of 2013, Pakistan was rated marginally above India. As expected, China, Malaysia, UAE and Thailand, who offer a significantly more conducive business and infrastructure environment, are also preferred over Pakistan. However, more than half the respondents give a higher rating to Pakistan, as compared to Sri Lanka, Bangladesh, Philippines and Vietnam, despite the fact that macro-economic indicators of these countries have been better than Pakistan in recent years.

In the "Aspects of Doing Business" section, the delay in settling tax refunds, time consuming processes for fulfilling tax requirements, energy shortages and delays in resolution of issues with different functionaries of the Federal and Provincial government are major irritants for businesses. There are also negative sentiments by a significant number of respondents for the unsatisfactory state of affairs in respect of 'Clarity/Fairness of Laws and Regulations', 'Protection of Trade Marks and Intellectual Property Rights', 'Contract Enforcement', and 'Level Playing Field', although there is some improvement as compared to 2013.

OICCI understands its role in promoting a conducive business environment, and will stay engaged with the federal and provincial governments to professionally and proactively, address the above negative perceptions through good governance and consistent implementation of policies. Perceptions of foreign investors already operating in the country are important for attracting new foreign direct investment.

On the positive side, a significant number of foreign investors have given good ratings for certain aspects of doing business like 'Access to local finance', 'Safety of foreign investment', 'Repatriation of profit' and relatively favorable ratings for 'An independent legal system', and 'Protecting Minority Interest', which reflect the liberal and investor-friendly policies appreciated by foreign investors. The government should carefully nurture these perceptions to ensure additional simplification in regulatory procedures and processes to become more competitive with regional economies.

More than 50 percent of the respondents have, once again identified 'Security, Law and Order' situation and the 'Energy Shortage' as the two biggest challenges they face, which is somewhat of a surprise as various independent, as well as OICCI sponsored, surveys have acknowledged the definite improvement in the security environment all over the country, especially in Karachi since early 2014. This may be indicative of a cautious attitude by respondents in the absence of a long term policy solution to security related matters. In the same way, although addressing the energy gap and improvement in energy management has been on the government's agenda the results have not yet materialized. The initiation of various energy projects has not taken the respondents' focus away from current shortages and high costs of utilities.

Members have regularly highlighted that the authorities, instead of broadening the tax base continue to put more burden of taxation on compliant tax payers. The "super tax" introduced in the Federal Finance Act 2015-16, has been a hard blow for successful companies as they feel that they are being penalized for good management and tax compliance. Furthermore, new items continuously being added to the taxes on services charged by the provincial revenue boards and the continuing lack of coordination between the Federal and Provincial revenue authorities is also a matter of concern for the respondents. Several respondents are, in fact, in litigation on certain issues arising due to this lack of coordination. These are the main reasons for identifying 'Increasing tax burden' and lack of inter-governmental coordination as third and fifth biggest challenges facing OICCI members.

Policy implementation and governance issues remain an area of serious concern, and despite positive perceptions in different surveys after the present Federal and Provincial governments took over after the elections in 2013, respondents have expressed their disappointment on actual performance of the governments by maintaining 'Policy implementation' as the fourth biggest challenge, the same position as in the 2013 survey.

Members belonging to the pharmaceutical sector have raised serious concerns that despite the setting up of a Drug Regulatory Authority, after a protracted struggle, issues of pharmaceutical companies remain unaddressed and the Drugs policy, introduced in 2015, does not take into account important concerns voiced by the pharmaceutical companies in respect of pricing and new drug registration, which are core matters for the industry. In fact, more penalizing steps are being taken against compliant manufacturers.

A large number of respondents are unhappy that stakeholders are not consulted before the federal and provincial governments take major policy decisions impacting trade and industry. Respondents are even more concerned about lack of proper and effective implementation of existing policies, which has been identified as a bigger issue compared to changes in policies and is rated as a serious issue in various surveys negatively impacting foreign investors.

Another area of concern for investors is "Contract Enforcement" where average time for dispute resolution despite showing an improvement, since the last survey, remains close to seven years and members have reported cases pending for over fifteen years. Though the 'Trial and judgment' time has reportedly improved by 0.8 years, the time taken for 'Enforcement of judgment' has worsened by 0.2 years, as compared to the survey in 2013. Long delays in resolution of disputes and enforcement of judgments, reflects negatively on our law enforcement structure, as well as the legal system.

Despite the various negative perceptions of members mentioned above, the survey responses, related to risks, should be encouraging for policy makers as the 'High Risk' rating for Pakistan as a venue for investment, has, in the opinion of the respondents reduced to 19% from 42% in 2013. This is a good message for prospective foreign investors entering the country.

As a concluding note the good news for the government is that OICCI members continue to have confidence in the country and have hopes that the business climate will improve, with nearly eighty percent of the members stating they will recommend more foreign direct investment into Pakistan.

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 staff for the compilation, analysis and publication of this survey.

The results of the survey are shared with OICCI members, policy-makers, media, foreign trade delegates and other 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.

Atif Bajwa
President

M. Abdul Aleem
CE/Secretary General

Respondents' Profile

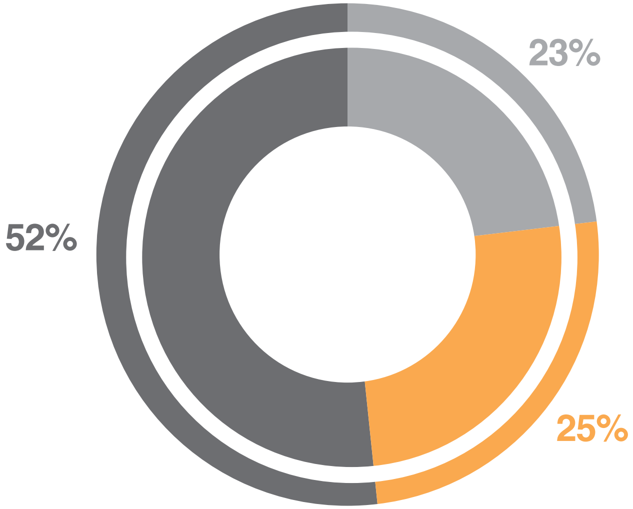
Of the 195 members of OICCI at the time of the survey, 139 members, or 71%, responded to the survey. Our members operate in 14 key sectors of the economy and except for security services sector, which has only one member, all the sectors are represented in this report.

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.

The figure below illustrates the sector-wise participation of the survey respondents.

Regional Headquarters of Respondent Companies

Majority of the respondents are part of the Asia Pacific Region of their respective international groups.



Analysis of Findings

Section I: Business Environment

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

The Survey sought members' views on different facets of business environment in the country. The results are as given below. For ease of understanding, orange represents members' perception that Pakistan offers a better business environment than the country against which it is being compared and grey represents the country being compared is better than Pakistan. For example, 40% of the members find Vietnam's business environment better than Pakistan on EODB whereas 39% find Pakistan to be better. The remaining 21% perceive EODB to be the same in both countries. Therefore, one can conclude that 60% of OICCI members find operating in Pakistan to be better or same as compared to Vietnam.

- Foreign investors' sentiments about the investment climate in Pakistan seems, to have improved as compared to the 2013 survey. On combining 'Better' and 'Same' rating, investors perceive Pakistan to be a relatively better place than four regional countries, similar to the last survey, however with more respondents giving Pakistan a better rating than in the last survey. Vietnam, which was rated better in the 2013 survey, has now joined Sri Lanka, Bangladesh and Philippines in the list of four countries which are rated below Pakistan.
- A notable change, as compared to the last survey is that the business climate in India, which was rated below Pakistan, is now perceived to be better, despite considerably more favorable policies offered to foreign investors in Pakistan, like 100% foreign shareholding and relatively more freedom in the laws of Pakistan to repatriate dividends, royalties and capital.
- Another notable change, is the upside in sentiment about business climate in Pakistan, where respondents give Pakistan a rating similar to Indonesia, which was rated above Pakistan in the 2013 survey.
- The reduction in the positive perception of the business environment of Indonesia and Vietnam by the OICCI members, as compared to 2013 survey, is in conflict with the recent trend of huge inflow of FDI and better economic growth in both the countries.

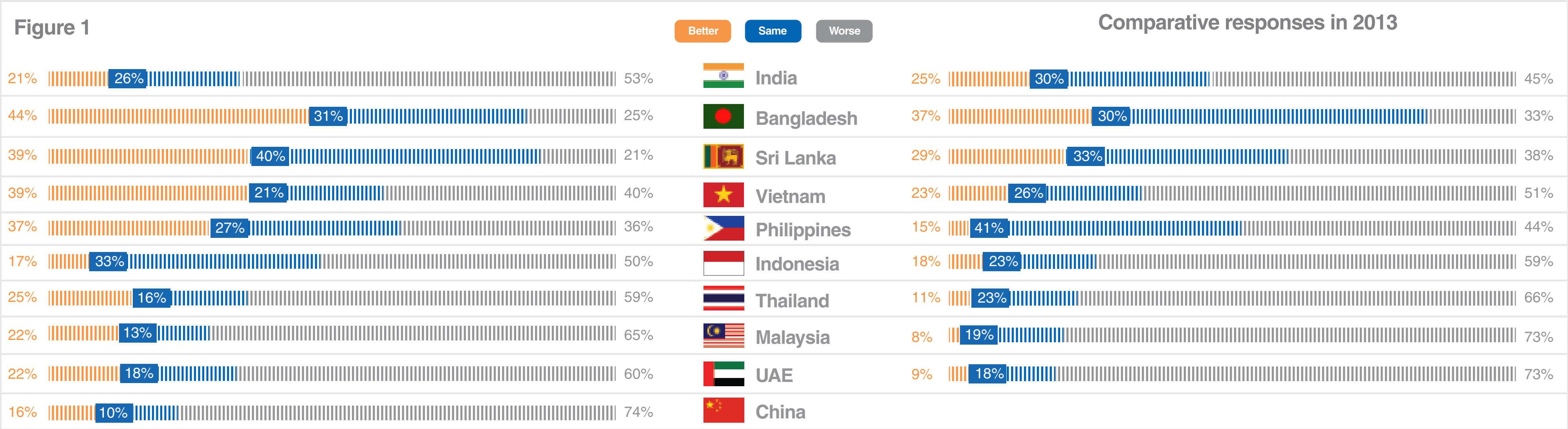


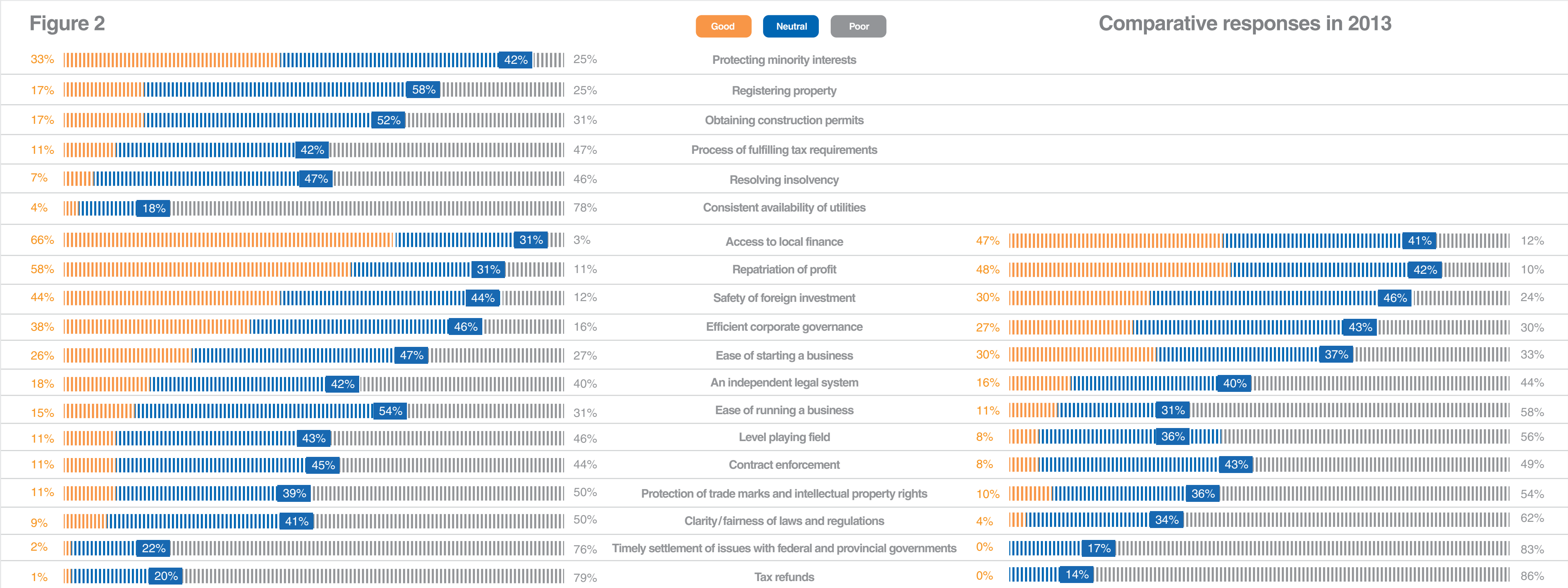
Figure 1

ASPECTS OF DOING BUSINESS IN PAKISTAN

The 2015 survey includes six additional parameters as compared to 2013.

These have been added to align the evaluation with the annual 2016 World Bank "Ease of Doing Business" survey.

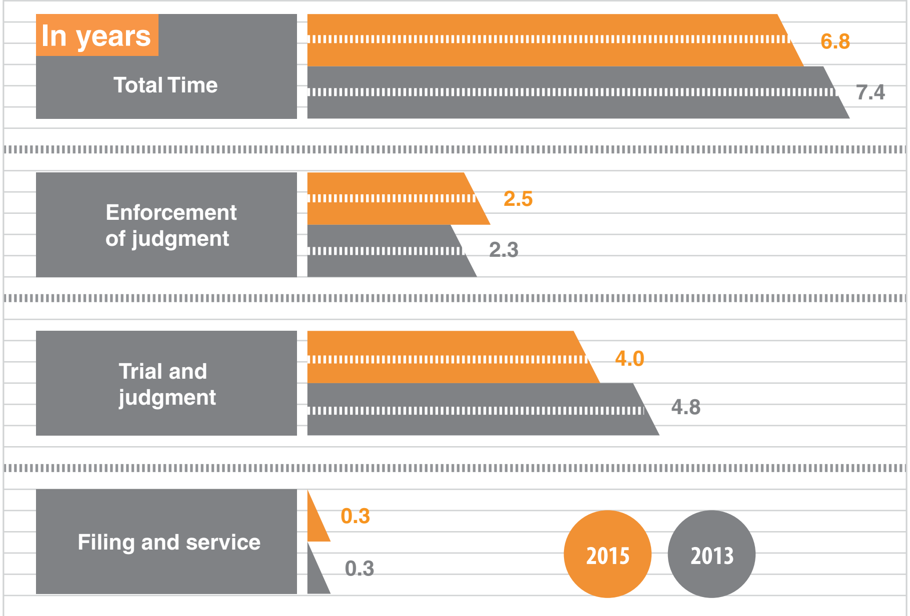
- The Survey reveals that Pakistan continues to be given a high rating, in fact there is further improvement, for certain aspects of doing business like 'Access to local finance', 'Repatriation of profit' and 'Safety of foreign investment'. In addition, 'An independent legal system', and 'Protecting Minority Interest' are also rated favorably. A number of other parameters have recorded double digit improved rating as compared to 2013. These include, perceptions on 'Ease of running a business', 'Efficient corporate governance', and 'Clarity/fairness of laws and regulations'.
- The positive responses reflect the liberal and investor-friendly policies of Pakistan which are appreciated by foreign investors. This highly improved foreign investors' sentiments on doing business in Pakistan needs to be leveraged to attract higher level of FDI and local 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 again reported serious concern for the delay in settling tax refunds, utilities not being available on a regular and consistent basis, as well as delay in resolution of issues with Federal and Provincial governments and Regulatory bodies as serious challenges in doing business in Pakistan. These three issues have become major irritants to businesses, as can be noted by 79%, 78% and 76% of respondents giving a 'poor' rating to these aspects of doing business. In addition the process for fulfilling tax requirements has also not been given a good rating. Delay in settlement of tax refunds and time consuming procedures for completing various federal and provincial tax regulations, including on withholding tax, is a serious irritant and contributes to increasing cost of doing business.
- The unsatisfactory rating for 'Protection of Trade Marks and Intellectual Property Rights' continues to frustrate the foreign investors.
- A significantly high proportion of investors have negative sentiments for 'Contract Enforcement', 'Clarity / Fairness of Laws and Regulations', and 'Level Playing Field', although there is some improvement, in all these aspects, as compared to the perceptions in 2013.



CONTRACT ENFORCEMENT

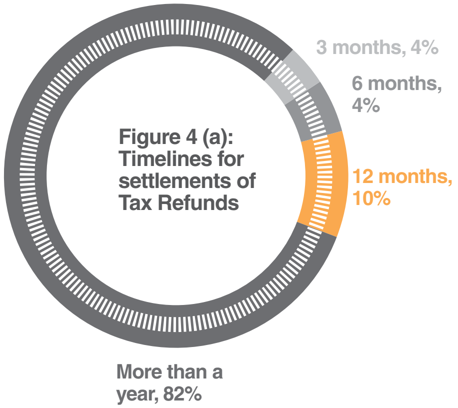
- The average time consumed for resolving commercial disputes has shown marginal improvement and is now 6.8 years, due to reported improvement in 'Trial and judgment' time. Although it is still quite a long time, especially since members have reported some litigation still pending after more than 15 years, nevertheless the reported reduction in average total time is indicative of marginal improvement of the judicial system in the country.
- Besides more time being taken in the enforcement of judgement, the average cost incurred for the resolution of a standardized commercial dispute through the courts has jumped to 27% of the claim value. (2013: 17%). 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.

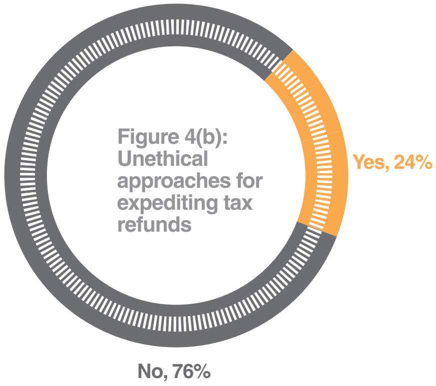
Figure 3: Average time taken to resolve a standardized commercial dispute through the courts



TAX REFUNDS

- Delays in tax refunds affect about one fourth of OICCI members, but it continues to be the most serious concern of the members concerned. From the members feedback it is clear that the issue has not been seriously tackled by the FBR or the Ministry of Finance with consequences on the confidence level of foreign investors. OICCI members have been pursuing tax refunds for quite some time and are not satisfied with the commitment of the relevant authorities to resolve the issue as per the accepted norm. The additional bottlenecks created after the enactment of the provincial revenue boards and multi tax demands also remain to be satisfactorily resolved.
- OICCI members contribute over one third of the total revenues collected by the federal and provincial governments and the refunds at any given at any point of time are less than 5% of the annual taxes paid by the members.
- Approach for unethical payments related to tax refunds has reduced by a nominal 2%, as compared to last year, which is a good sign. However, the point to be noted is that respondents have still reported about such approaches, which is more or less in line with overall such unsavory practices mentioned in the latter part of the survey which the government needs to address.





BUSINESS RISK IN PAKISTAN

Overall the OICCI members perceive a significant reduction in the high risk previously associated to operating in Pakistan.

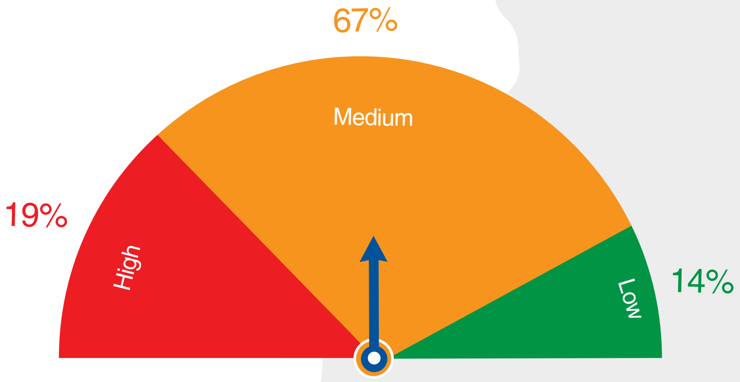
The 2015 survey responses, as given above, should be encouraging for policy makers and a boost to potential foreign investors planning to enter Pakistan. This again re-inforces the belief that the OICCI members belonging to 35 countries and operating in Pakistan for many years have a much better understanding of the risk and reward of investing in Pakistan. Sector wise responses are evenly divided except the low risk classification which is mainly given by some of the respondents from the trading sector.

IMPORTANT BUSINESS RISKS IDENTIFIED

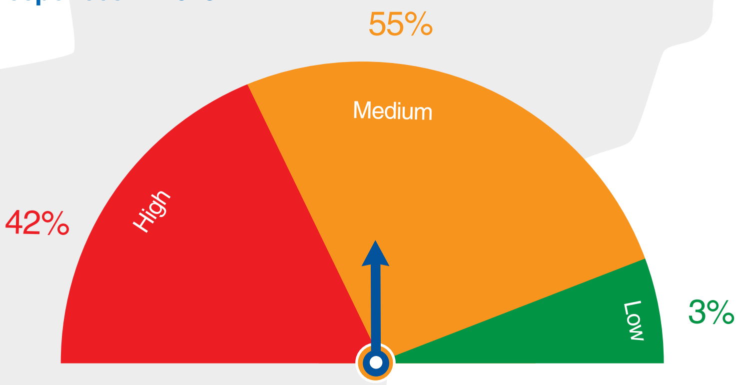
On a macro level analysis, OICCI members, have identified consistent and cost efficient availability of energy and gap between GOP policy and its implementation as serious operating risks.

A number of companies belonging to the consumer and healthcare sector have identified counterfeiting, illegal imports and dumping of cheaper imported products as major risks to their businesses. Pharma companies have mentioned rigid registration policies and price controls impacting profitability as risks for their businesses. Financial sector organizations have mentioned anti money laundering, non-availability of sovereign Sukkuks (Islamic debt instrument) for liquidity management and insurance and Takaful laws as risks.

Figure 5



Comparative responses in 2013

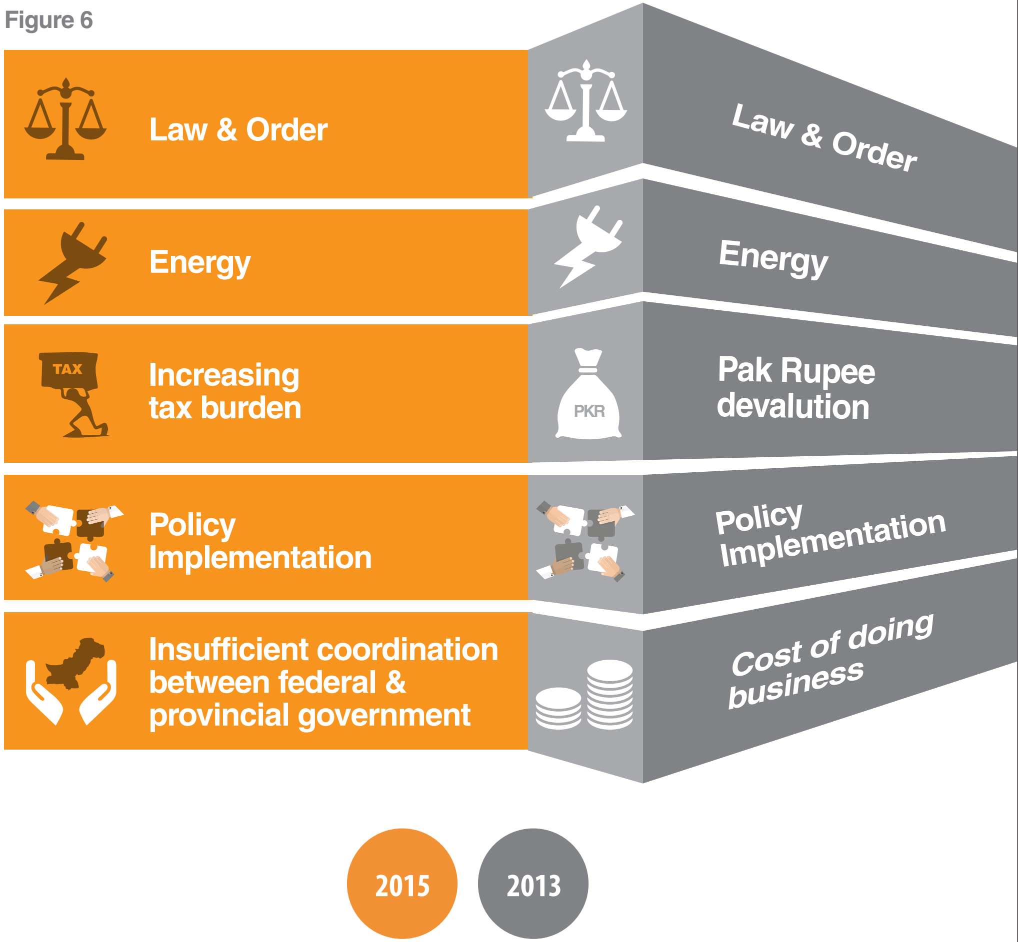


Section II: Top Challenges

As in 2013, the two biggest challenges identified by the respondents are the 'Security, Law and Order' situation and the 'Energy Shortage'. More than 50% of the respondents have ranked both these challenges in either position 1 or 2, despite recent improvement in the security environment all over the country and especially in Karachi, where the majority of our members have their Head offices.

- It seems the respondents are still unsure of the sustainability of the improved security situation which seems to have dictated their responses. Similarly, despite some apparent improvement in energy management, continuing shortages and increasing costs of electricity and gas supply have led participants to rank energy shortage as their second biggest challenge, once again.
- The increasing burden of taxation on compliant tax payers, especially the new 3-4% "super tax" introduced in the Federal Finance Act 2015-16, additional items added to the taxes on services charged by the provincial revenue boards and the lack of seamless coordination between the Federal and Provincial revenue authorities has lead the respondents to identify 'Increasing tax burden' and lack of coordination between the Federal and Provincial governments as the third and fifth biggest challenges facing OICCI members.
- Policy implementation/governance issues remain an area of serious concern, despite the current political leadership, both at the federal level and in the provinces scoring high ratings in the parallel business confidence surveys, OICCI members' feedback reflects continuing disappointment on the lack of visible initiative or improvement in this area. OICCI has been consistently urging the authorities to pay serious attention to robust policy implementation supported by a strong accountability mechanism to boost the confidence of investors in Pakistan.
- Pak rupee depreciation, against the major currencies, which was an issue in 2013, does not feature anymore in the top challenges due to the relative stability of the PKR in the last two years.

Figure 6

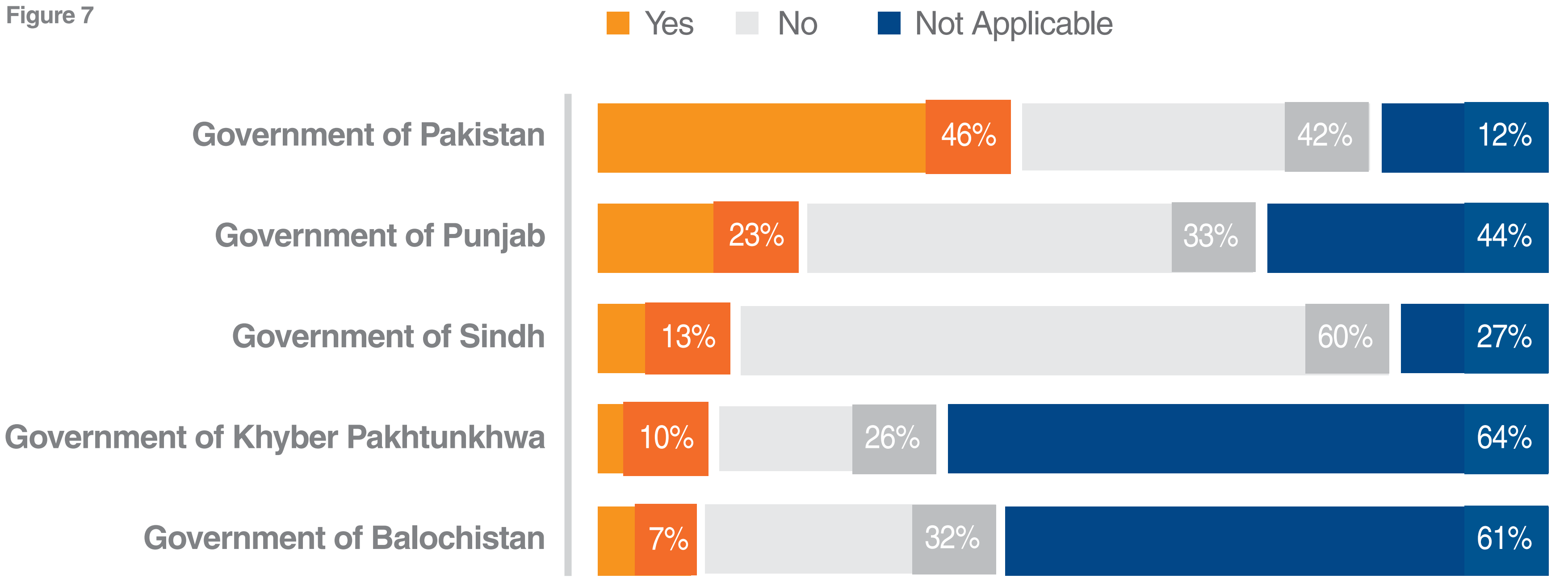


Section III: Governance

GOVERNMENT POLICIES

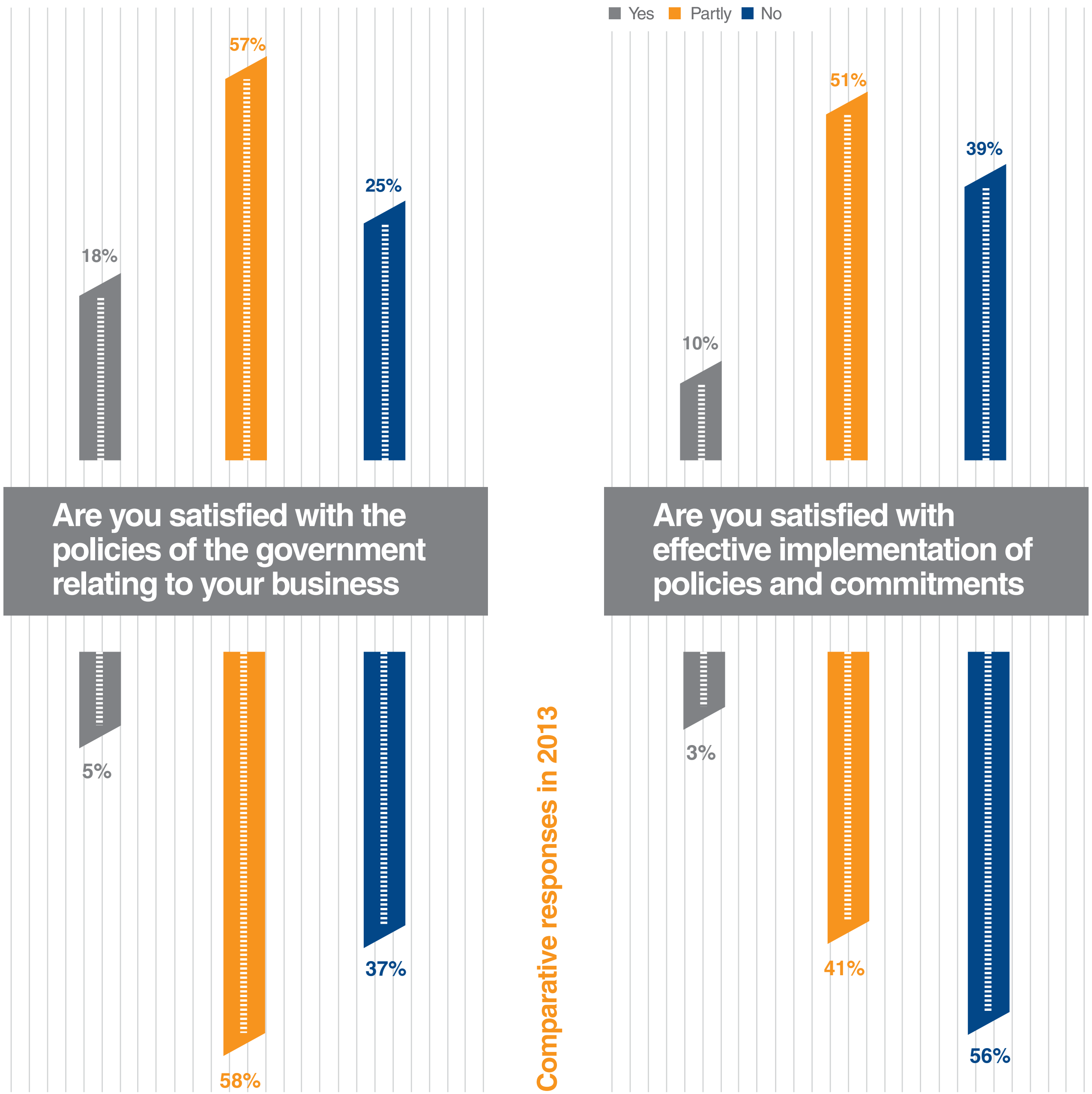
Members' feedback on whether the federal and provincial governments engage with key stakeholders in taking major decisions on matters affecting the foreign investors?

Figure 7



Nearly half the respondents have expressed reservations on the Federal government taking major policy decisions affecting trade and industry without any meaningful engagement with key stakeholders. All the provincial governments fare worse in this major area of concern for businesses. Sindh province, where 70% of our members are based, has received the highest negative feedback on this measure which needs to be addressed on priority by the authorities concerned.

Figure 8: Satisfaction with Government policies



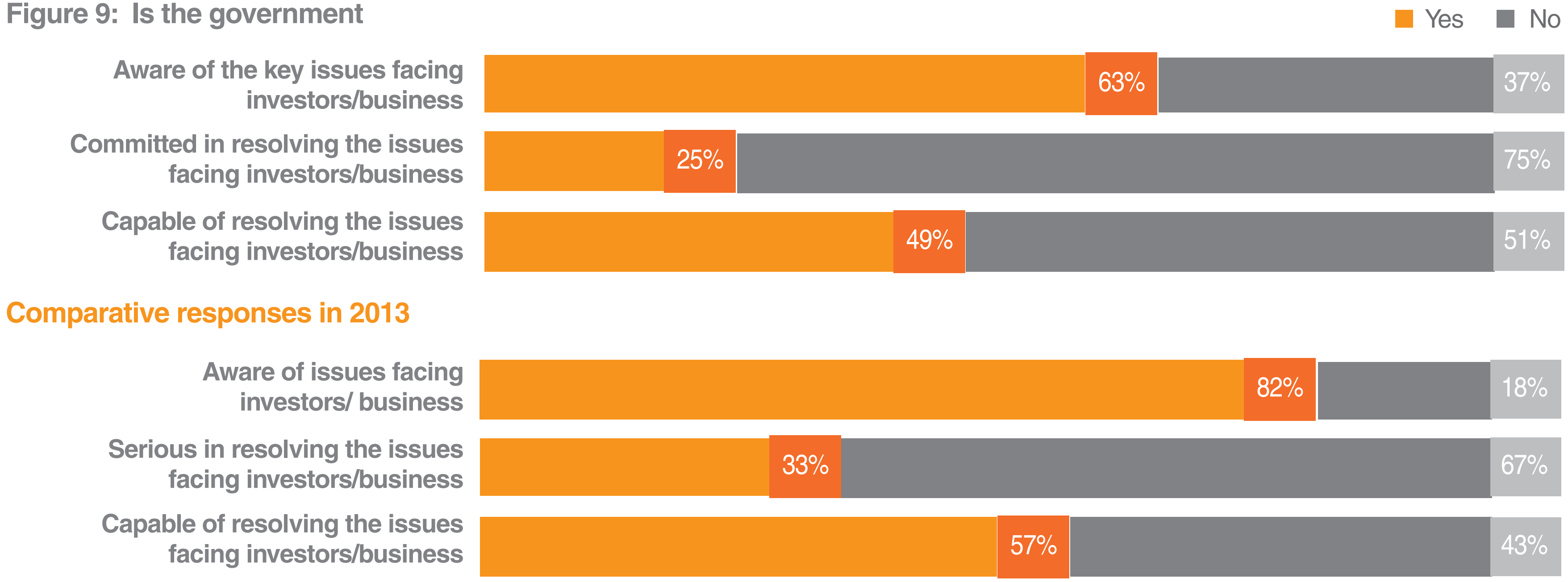
Members have once again shown more concern with policy implementation than with policy itself.

Compared to previous 2013 survey, the satisfaction levels, for both policies and the implementation of these policies, has marginally improved.

EXPERIENCES WITH THE GOVERNMENT OF PAKISTAN AND ITS FUNCTIONARIES

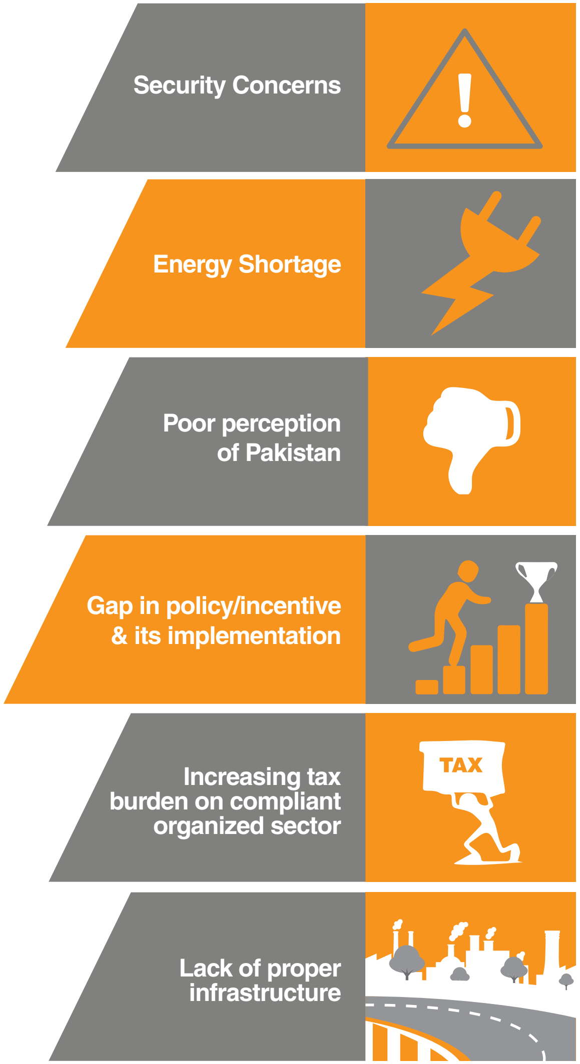
Nearly two-thirds of the respondents believe that the Government is aware of the key issues faced by the business community, but does not seem serious or committed for resolving these issues,with over half the respondents stating that the government is incapable of doing so.

Figure 9: Is the government



The Government seems to be losing the investors' confidence, as the responses to all the three questions clearly show that the negative sentiments have increased substantially as compared to 2013 survey. This is not a good sign and should be an area of concern for all the key government functionaries.

DECLINE IN INVESTMENT, INCLUDING NEW FOREIGN DIRECT INVESTMENT (FDI)



The most important factors identified by the respondents for decline of investment/foreign direct investment (FDI), during the past few years are, more or less the same as the top challenges identified earlier.

We are aware that the government, and the institutions working under the government, have over the last two years taken a number of initiatives to improve the security, law and order situation. However respondents need to be assured that this situation is sustainable for a longer term and that there would be no let-up in the security improvement drive and that the Government will further strengthen the successes already achieved on this important aspect for investors.

While the Government is already focusing on bridging the energy supply and demand gap through various new projects in the pipeline, there is a strong need to improve international perception of Pakistan which is, by and large, worse than the reality, which has also been highlighted above. Besides, the broadening of 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 needs to be handled on top priority.

Respondents have given suggestions for improvement of the investment climate in Pakistan, based on lessons learnt or initiatives taken by their respective associated companies in the region, which include the following:

Policy

- Policies should be clear, long term, consistent, and turnaround time for necessary regulatory approvals should be minimum and defined.
- Policies related to environment, quality standards, and business matters should be benchmarked with countries in a similar stage of development.
- Pharmaceutical prices should be deregulated.
- Foreign directors appointment should be streamlined.

Intellectual Property Rights

- There should be more stringent crackdown on channels for counterfeit and smuggled goods.

Investment

- Investment policies should be easy to understand and investor friendly.
- IT industry should be considered as a revenue generating and growth industry.
- One window for all regulatory requirements for investors.

Fiscal measures

- Lesser controls over foreign currency remittances.
- Effective and fully empowered regulatory authorities.
- Capacity building and qualified professional in government departments.

Taxation

- Tax related policies and procedures should be transparent, consistent and simplified.
- Tax policies should be investment oriented and implemented fairly.
- Tax rates and number of taxes should be benchmarked against regional countries.
- Speedy process should be adopted for documentation of the economy.

Market Pakistan

- Build image of Pakistan in international media by obtaining slots in international media channels for Pakistan business update as currently being done by some other countries.

INVESTOR CONFIDENCE

- Despite the various reservations and identification of factors which have led to a decline in FDI over the last few years, OICCI members are of the considered opinion that there is a good potential for investment in Pakistan and they will continue to recommend new FDI in Pakistan.
- The government should take a note of this positive mind-frame of foreign investors who are already operating in Pakistan and, besides improving governance and other factors, identified as bottlenecks, use the existing foreign investors as business ambassadors of the country for attracting new foreign direct investment.
- Foreign investors overwhelmingly favor a system of transparent accountability, timely corrective actions to address issues hampering investment and regular government and business interaction to improve the policy framework to tackle the current economic and administrative challenges with consensus of all stakeholders.
- In order to provide policy reforms and advocacy support to the government, all respondents strongly felt that the government should involve OICCI in policy and regulatory matters. The Chamber's continuous engagement with the government for OICCI representation on various regulatory boards has resulted in OICCI being nominated on various bodies like the IPOP Policy Board, Tax Reforms Commission, Tax Advisory Committee, Broadening of Tax Base Committee and Ease of Doing Business Committee. However, there are many more forums especially in the area of Economic and Energy management where OICCI input can be of great value to the authorities.
- The main issue from the respondents' perspective is the lack of effective and timely implementation of the recommendations made to the government and/or visibility of the corrective actions taken which is a pre-requisite to attract new and larger FDI.

Figure 11(a): Based on the current business climate, would you recommend the new FDI in Pakistan.

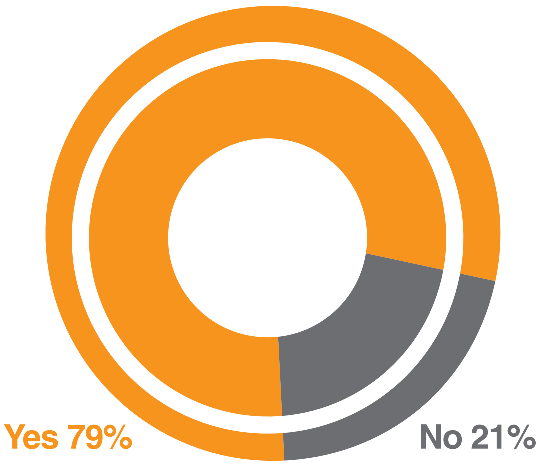
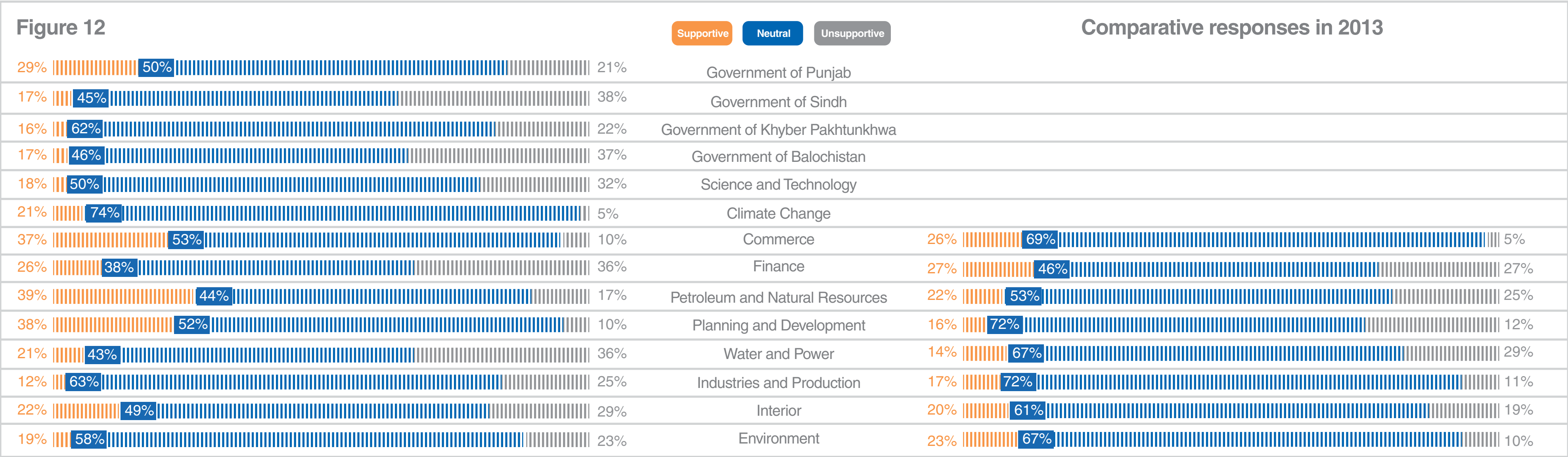


Figure 11(b): Recommendations for improving governance and better policy implementation by an institutionalized process to attract new FDI

PERFORMANCE OF THE PROVINCIAL GOVERNMENTS AND FEDERAL MINISTRIES

- In developing countries like Pakistan, the Government plays a key role in facilitating investors in the smooth running of their operations. The Ministries included in the survey, including some Ministries added in the 2015 survey, were considered relevant for our members based on the frequency of interaction. In addition to the Federal government ministries, we also included the perception about the four main provincial governments as the role of the provinces, in matters impacting investment, trade and industry, has increased significantly after the 18th amendment to the constitution of Pakistan
- As in the previous survey the Ministry of Commerce, Ministry of Planning and Development and the Ministry of 'Petroleum and Natural Resources' have been rated 'supportive' or 'neutral' by a significant majority of the respondents. However the Ministry of Finance seems to be perceived as less supportive than in the 2013 survey as there is a drop of 9% after combining the supportive and neutral rating, which is perhaps related to the adverse tax related perceptions of tax refunds, not introducing new reforms for broadening the tax net and unresolved issues of coordination/harmonization between central and provincial revenue boards.
- There is also drop in the supportive rating of the Ministry of Industries & Production and Ministry of Environment, whilst the unsupportive rating of Ministry of Interior has gone up, as compared to the 2013 survey. The reduced rating could be attributed to recent proposed legislation on environment without a fully consultative process with stakeholders and continuing concerns on effective security, law and order which falls under the Ministry of Interior.
- The Ministry of Science and Technology which was added in the 2015 survey has not been rated very well, which could be a fallout of investor concerns related to some departments falling under this Ministry, like the Pakistan Standards and Quality Control Authority whose working methodology has been a matter of growing concern for our members.
- The responses on the role of the provinces continues to be quite negative especially for the Sindh province where majority of our members are based. Similarly authorities in Baluchistan should also be concerned with the foreign investors' feedback considering that both the Punjab and Khyber Pakhtunkhwa have been given relatively good ratings when combing the supportive and neutral responses.
- The feedback is based on OICCI members interaction with the various government authorities over the last two years.
- It may be noted that overall the highest ratings were in the neutral column, which does not seem to reflect a very positive view of the respective ministries and provinces from the members perspective.



PERFORMANCE OF THE REGULATORY AUTHORITIES

The performance of 15 Regulatory Bodies were evaluated in the survey, taking into account their relevance and importance in the functioning of businesses. The results reveal a mixed perception, where most of the regulatory bodies were perceived to be neither supportive nor unsupportive, except for the SECP, SBP and BOI which fared better than other regulatory bodies with over 50% of respondents showing satisfaction with their performance. SECP and SBP had scored better than the others in 2013 survey as well, but the supportive rating in that survey was marginally below fifty percent. Percentage of respondents giving a supportive rating to BOI has increased by 14% as compared to the 2013 survey, which indicates that foreign investors' confidence in the BOI has improved in the past two years.

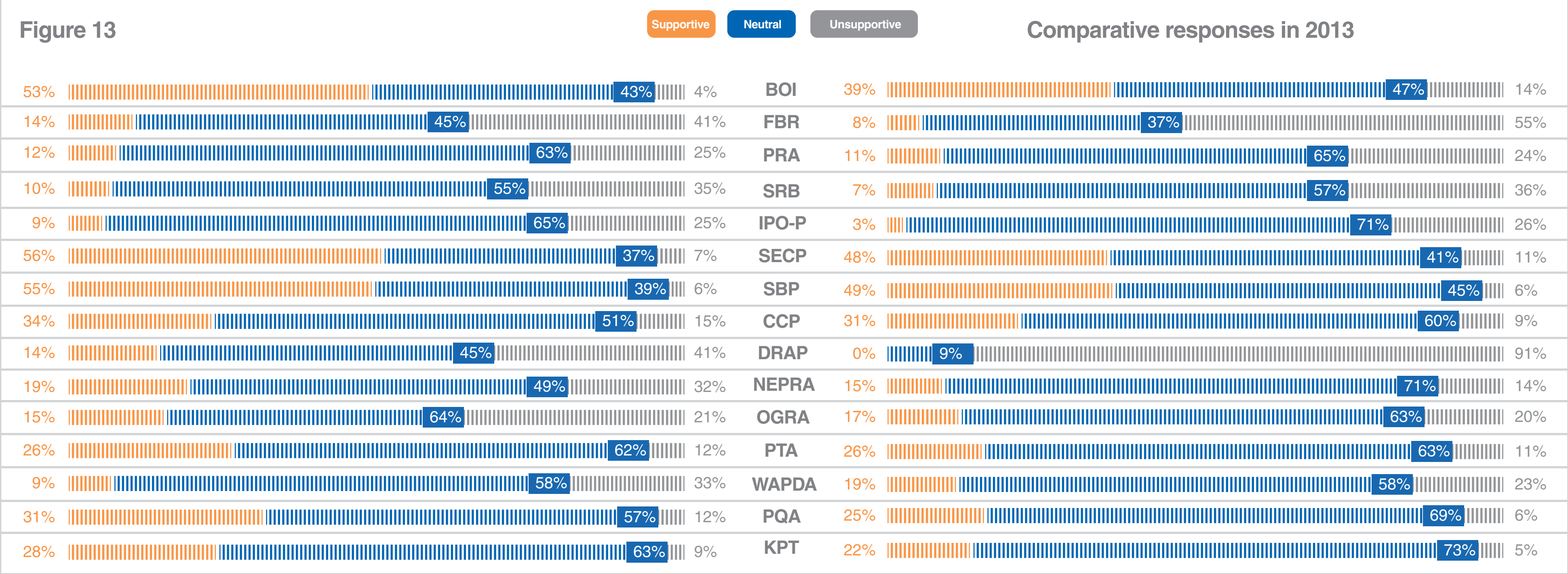
It should a matter of concern for the authorities that 8 regulatory bodies out of the 15 mentioned in the survey have been rated unsupportive by more respondents than in the last survey with ratings of NEPRA and WAPDA going down significantly.

Although rating of the Drug Regulatory Authority of Pakistan (DRAP) has improved, as compared to the last survey, it is still a negative assessment. Pharma sector companies have mentioned that the drugs policy announced in 2015 does not take into account important concerns voiced by the pharmaceutical companies in respect of pricing and new drugs registration, which are core matters for the industry.

Although only 14% of respondents have given FBR a "supportive" rating, which should be of concern, there is an improvement in the overall rating of the 'Federal Board of Revenue (FBR)' as compared to the 2013 survey, despite concerns voiced else where in this survey on various matters which fall under the domain of FBR. These concerns include imposition of additional taxes, like the 'Super tax' on the already overtaxed compliant tax paying companies, the ongoing issue of significant delays in the settlement of tax refund claims involving many members as well as the cumbersome and detailed documentation process required before claims are allowed.

The long unresolved conflicts of jurisdiction between the federal and provincial revenue boards have negatively impacted the business community and this is also reflected in the responses given by the members for the 'Sindh Revenue Board (SRB)' and 'Punjab Revenue Authority (PRA)'.

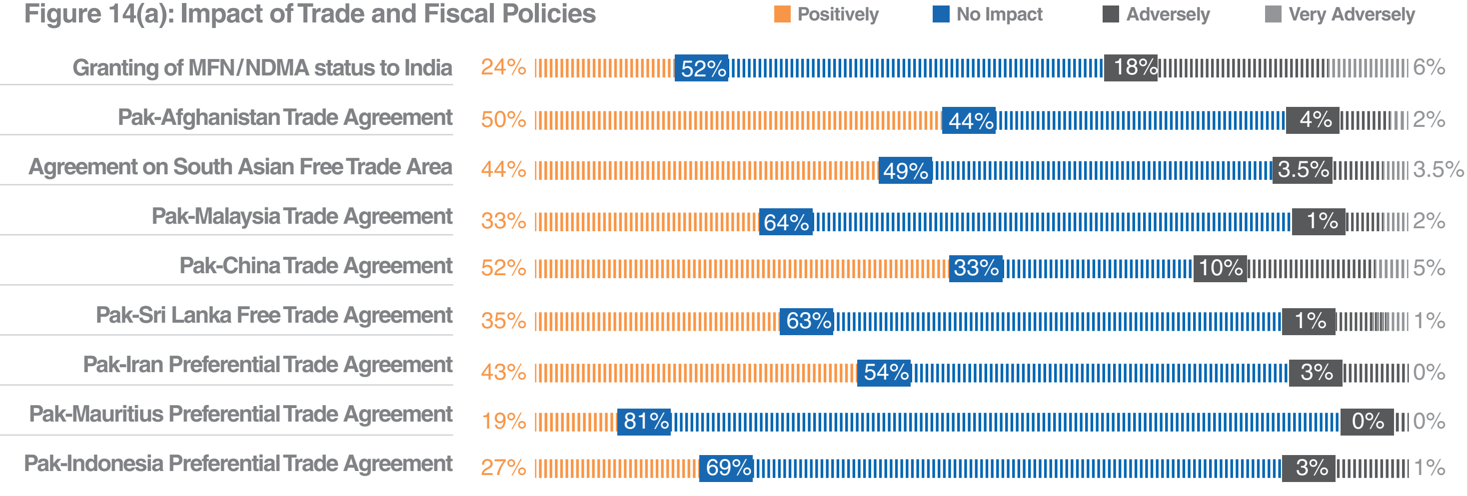
Figure 13



Section IV: Trade & Fiscal 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. The responses indicate 'no impact' or a positive impact on account of the current trade agreements. On the issue of the often discussed MFN/NDMA with India, there are a few members who have shown concern as their business may be negatively impacted.

Figure 14(a): Impact of Trade and Fiscal Policies



TRADE POLICIES

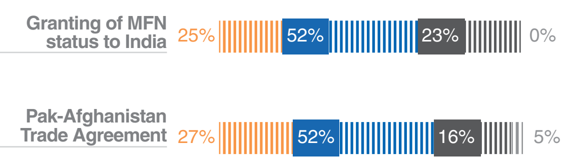
Trade with India

- It seems that members' opinion about trade with India has undergone a change since the last survey in 2013, as the positive response has dropped significantly from 43 percent to only 24 percent. It appears that many of those who were previously supportive of MFN/NDMA have now moved into the 'no impact' area, which makes it difficult to judge whether members are now more concerned about rigidity on the Indian side about removal of tariff and non-tariff barriers, as compared to the previous survey, and are therefore less keen for trade with India. The drop and the marginal increase in negativity could also be due to the fact that cost of doing business in India is relatively lower in many business sectors than in Pakistan where costs have gone up significantly in the recent past.
- However on the whole, taking into account both the 'positive' and the 'no impact' responses, OICCI members believe that MFN status should be granted to India but the Government should ensure even handed responses from the Indian side also.

Afghan transit trade

- The survey shows that more members, than in the 2013 survey, view trade agreements with Afghanistan positively consequent to improvement in the Pakistan-Afghanistan relationship in the last two years.

Figure 14(b): Comparative Responses in 2013

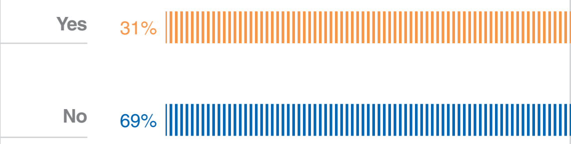


FISCAL MEASURES

Taxes and Levies

- The government should take note that an overwhelming majority of respondents are of the opinion that compliant tax payers are overburdened with taxes, some of them imposed in the 2015-16 Federal and the Provincial Finance Acts, whilst the tax evaders are largely left outside the tax net.

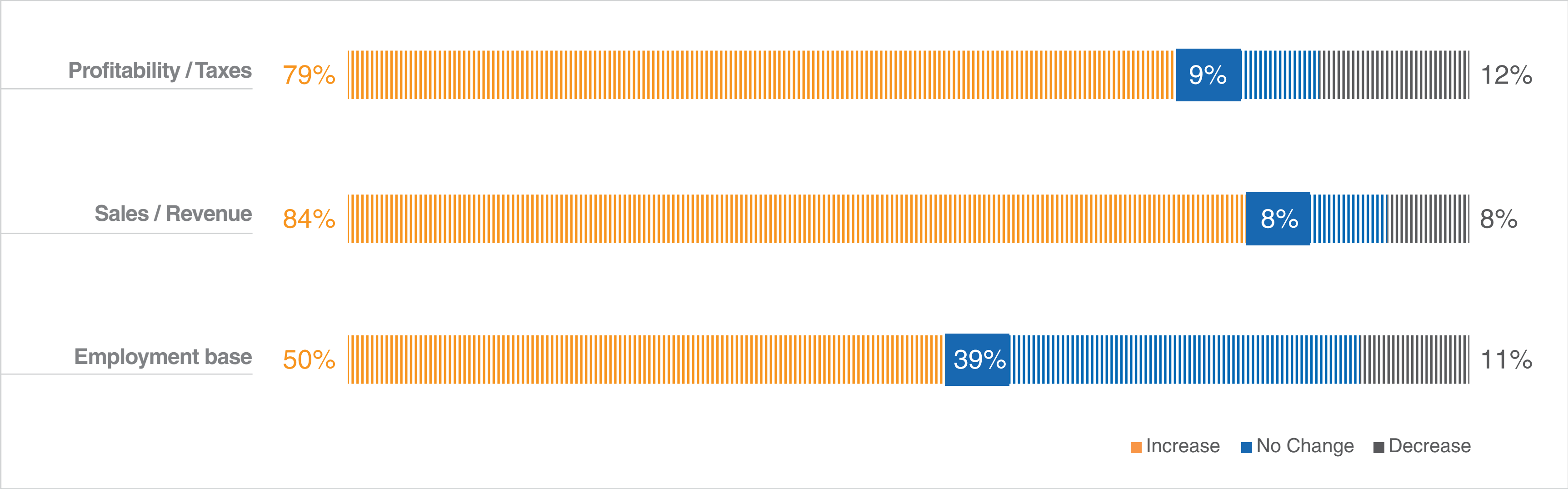
Figure 15: Respondents Satisfaction with Tax broadening measures



Section V: Operational / Investment Plans

GROWTH IN THE NEXT 2-3 YEARS

Figure 16



- Despite the energy and other operating challenges mentioned above, the OICCI members are increasingly optimistic, about future growth, as clearly shown above.
- As a consequence to the expected revenue growth, 50% of the respondents expect increase in their headcount to meet the growth targets in the coming years.
- There was however a small minority which expects reduced revenues, profits and employment.
- Lower profitability responses are mainly from the Pharmaceutical sector but also include some members from the Oil and Energy sectors.

NEW INVESTMENTS

Although a majority of the respondents have informed that they will be making new investments during the next five years, the total investments indicated amount to US$ 3 billion only, which is somewhat surprising considering the fact that in the previous two years, 2013 and 2014, actual capital expenditure made by OICCI members amounted to US $ 2.6 billion.

The case for investing in Pakistan is clear. With nearly 200 million people and an estimated 50-70 million middle-class consumers, favorable demographics, Pakistan's business potential is phenomenal for all investors. The full potential of doing business in Pakistan has not yet been truly unlocked, despite the fact that foreign investors, already operating in Pakistan for several years have by and large reaped good returns. Historically, foreign investment returns in Pakistan have been high compared to regional and international benchmarks. An analysis of 57 OICCI members listed on the KSE revealed that their CAGR for the six years period, 2009-2014, in respect of turnover was 13% and profitability was 16%.

Pakistan's fiscal incentives are among the most investor-friendly in the world. There are no restrictions on foreign ownership, repatriation of profits or hiring of expatriates. Pakistan tax rates also match rates in regional countries and there are additionally tax incentives for investments. With an ongoing State owned enterprises privatisation program, opportunities for large infrastructure-related investment projects under the China-Pakistan Economic Corridor, growth in local consumption and a largely untapped export potential, Pakistan has considerable need for capital investment in several sectors with potentially high returns. With political stability, insulation from external factors and the right macro-economic environment, Pakistan can register a prolonged period of domestically driven growth.

Majority of the Oil/Gas and Energy, Chemicals/Pesticides/Fertilizers/ Paints /Cement, Trading & Other services, Food/Consumer goods, Engineering/Industrial products, IT & Communications and Automobile sectors respondents have informed that they shall make new investments over the next 1-5 years.

Whilst a few respondents indicated fresh foreign equity injection for expanding their business, majority of them intend to finance new investments from retained earnings and local borrowing.

Figure 17(a): Planned Investment over the next 1-5 years

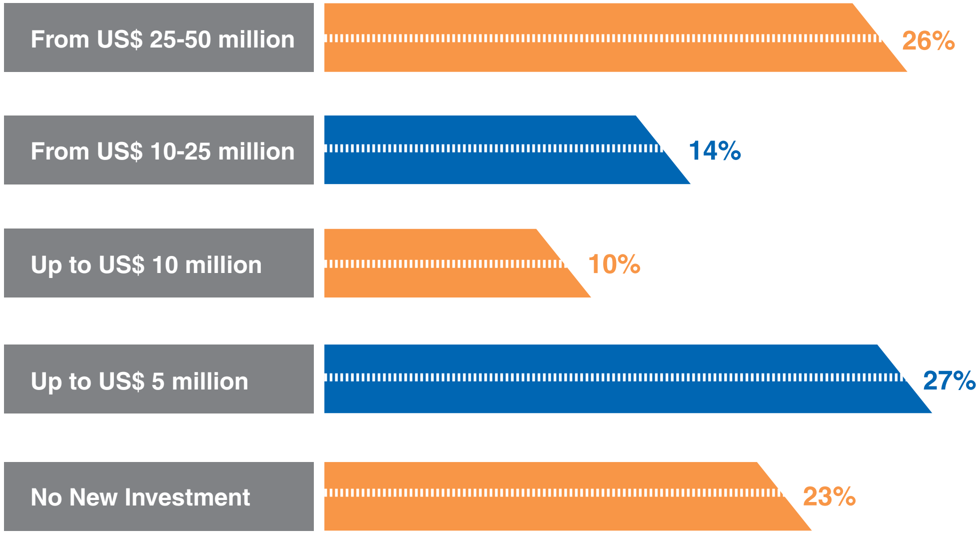
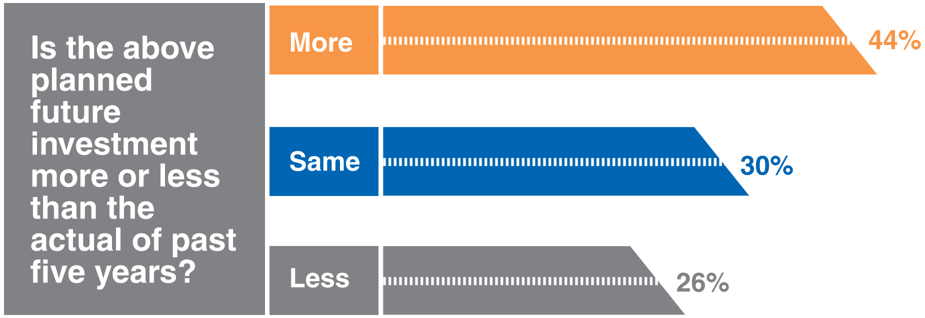


Figure 17(b): Planned Investment over the next 1-5 years



OICCI MEMBERS SELECTED FINANCIAL INFORMATION

Gross revenue

PKR 3 Trillion

Value of total assets

PKR 7.7 Trillion

Total levies paid to federal and provincial governments

PKR 884 Billion

Capital expenditure

US$ 1.4 Billion Annually

- These numbers are based on the information given by the member companies and from published financial statements for the year ended 31st December 2014 or 30th June 2015, respectively.
- Levies paid include income tax, sales tax, custom duties and excise duties.

Research Methodology

The 2015 Perception Survey Questionnaire focused on five broad areas, within which several issues of interest to current members and potential investors were addressed. These were:

I. **Business Environment**

II. **Top Challenges**

III. **Governance**

IV. **Trade and Fiscal Policies**

V. **Operational/Investment Plans**

The Perception and Investment survey 2015 incorporates new developments impacting the corporate sector since the last survey was done in 2013.

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 2015 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.

*The Perception and Investment survey 2015 questionnaire can be viewed on our website www.oicci.org

Annexure
Participating Companies – Total 139

AUTOMOBILE

1. Atlas Honda Limited
2. Hinopak Motors Limited
3. Indus Motor Company Limited

CHEMICALS / PESTICIDES / FERTILIZERS / PAINTS/ CEMENT

1. AkzoNobel Pakistan Limited
2. Archroma Pakistan Limited
3. Archroma Textiles Chemicals Pakistan (Private) Limited
4. Attock Cement Pakistan Limited
5. BASF Chemicals and Polymers Pakistan (Private) Limited
6. Berger Paints Pakistan Limited
7. Dawood Hercules Chemicals Limited
8. Engro Corporation Limited
9. Engro Polymer & Chemicals Limited
10. ICI Pakistan Limited
11. Kansai Paints (Private) Limited
12. Linde Pakistan Limited
13. Lotte Chemical Pakistan Limited
14. Nalco Pakistan (Private) Limited
15. Nippon Paint Pakistan (Private) Limited
16. Pakistan Gum & Chemicals Limited
17. Syngenta Pakistan Limited

ENGINEERING / INDUSTRIAL PRODUCTS

1. Aisha Steel Mills Limited
2. Dadex Eternit Limited
3. General Tyre & Rubber Company of Pakistan Limited (The)
4. J & P Coats Pakistan (Private) Limited
5. KSB Pumps Company Limited
6. Pakistan Cables Limited
7. Philips Pakistan Limited
8. Siemens Pakistan Engineering Company Limited

FINANCIAL SERVICES

1. ACE Insurance Limited
2. AIG Insurance Company Limited
3. Al Baraka Bank (Pakistan) Limited
4. Bank Alfalah Limited
5. Burj Bank Limited
6. Citibank N.A.
7. Deutsche Bank AG
8. Dubai Islamic Bank Pakistan Limited
9. Faysal Bank Limited
10. J. P. Morgan Pakistan (Private) Limited
11. MCB Bank Limited
12. Meezan Bank Limited
13. NBP Fullerton Asset Management Limited
14. Orix Leasing Pakistan Limited
15. PAIR Investment Company Limited
16. Pak Brunei Investment Company Limited
17. Pak China Investment Company Limited
18. Pak Oman Investment Company (Private) Limited
19. Pak Qatar Family Takaful Limited
20. Pak-Kuwait Takaful Company Limited
21. Pak-Libya Holding Company (Private) Limited
22. Pak-Qatar General Takaful Limited
23. Standard Chartered Bank (Pakistan) Limited

FOOD / CONSUMER PRODUCTS

1. 3M Pakistan (Private) Limited
2. Asian Consumer Care Pakistan (Private) Limited (Dabur Pakistan)
3. Bata Pakistan Limited
4. Coca-Cola Beverages Pakistan Limited
5. Coca-Cola Export Corporation (The)
6. Continental Biscuits Limited
7. Gillette Pakistan Limited
8. IFFCO Pakistan (Private) Limited
9. Mapak Edible Oils (Private) Limited
10. Nestle Pakistan Limited
11. Procter & Gamble Pakistan (Private) Limited
12. Rafhan Maize Products Company Limited
13. SC Johnson & Son of Pakistan (Private) Limited
14. Unilever Pakistan Limited

IT and COMMUNICATIONS

1. Hewlett Packard Pakistan (Private) Limited
2. IBL Unisys Pakistan (Private) Limited
3. IBM
4. Reuters Limited
5. Teradata Pakistan (Private) Limited
6. TPL Holdings (Private) Limited
7. TRG (Private) Limited

OIL / GAS / ENERGY

1. ABB (Private) Limited
2. Asia Petroleum Limited
3. Atlas Power Limited
4. Attock Petroleum Limited
5. Attock Refinery Limited
6. Byco Petroleum Pakistan Limited
7. Chevron Pakistan Lubricants (Private) Limited
8. ENI Pakistan Limited
9. General Electric International Operations Co. Inc.
10. Hub Power Company Limited (The)
11. ICI Pakistan Powergen Limited
12. International Power Global Developments Limited
13. K-Electric Limited
14. Kirthar Pakistan B. V.
15. Kuwait Petroleum Corporation
16. Pak Arab Refinery Limited
17. Pak-Arab Pipeline Company Limited
18. Pakistan Petroleum Limited
19. Pakistan Refinery Limited
20. Premier Oil Pakistan Holdings B.V.
21. Shell Pakistan Limited
22. Tethyan Copper Pakistan (Private) Limited
23. Total Parco Marketing Limited

PHARMACEUTICAL

1. Abbott Laboratories (Pakistan) Limited
2. Barrett Hodgson Pakistan (Private) Limited
3. Bayer Pakistan (Private) Limited
4. BSN Medical (Private) Limited
5. Chiesi Pharmaceuticals (Private) Limited
6. Eli Lilly Pakistan (Private) Limited
7. Getz Pharma (Private) Limited
8. GlaxoSmithkline Pakistan Limited
9. Lundbeck Pakistan (Private) Limited
10. Novartis Pharma (Pakistan) Limited
11. Novo Nordisk Pharma (Private) Limited
12. OBS Healthcare (Private) Limited
13. Parazelsus Pakistan (Private) Limited
14. Pfizer Pakistan Limited
15. Reckitt Benckiser Pakistan Limited
16. Roche Pakistan Limited
17. Sanofi Aventis Pakistan Limited
18. Wyeth Pakistan Limited

PRINTING and PUBLISHING

1. Oxford University Press
2. Paxar Pakistan (Private) Limited

SHIPPING and AIRLINES

1. James Finlay Limited
2. Mackinnon Mackenzie & Company Of Pakistan (Private) Limited
3. Pakistan International Container Terminal Limited
4. Qasim International Container Terminal Pakistan Limited (DP World)

TELECOMMUNICATIONS

1. Pakistan Mobile Communications Limited
2. Pakistan Telecommunication Corporation Limited
3. Telenor Pakistan (Private) Limited

TRADING and OTHER SERVICES

1. Abudawood Trading Company Pakistan (Private) Limited
2. Arabian Sea Enterprises Limited
3. DHL Global Forwarding Pakistan (Private) Limited
4. DHL Pakistan (Private) Limited
5. Dupont Pakistan Operations (Private) Limited
6. Habib Metro Pakistan (Private) Limited
7. Hascombe Business Solutions (Private) Limited
8. Marubeni Corporation
9. Metro-Habib Cash & Carry Pakistan (Private) Limited
10. Mitsubishi Corporation
11. Mitsui & Company Limited
12. SGS Pakistan (Private) Limited
13. SICPA Inks Pakistan (Private) Limited
14. SPG Prints Pakistan (Private) Limited
15. Tri-Pack Films Limited

TOBACCO

1. Pakistan Tobacco Company Limited
2. Philip Morris (Pakistan) Limited

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