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Ease of Doing Business in Pakistan

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Ease of Doing Business in Pakistan

The term "ease of doing business" refers to the overall simplicity and efficiency of processes and regulations involved in starting, operating, and growing a business within a particular country. It includes various aspects such as ease of business registration, obtaining permits and licenses, accessing credit, enforcing contracts, navigating tax systems, facilitating international trade, and much more. According to the latest World Bank annual ratings, Pakistan is ranked 108 among 190 economies in the ease of doing business.

Pakistan, one of the largest economies in South Asia, plays a pivotal role in the region's economic landscape. With a population exceeding 220 million, the country's diverse economy encompasses agriculture, manufacturing, services, and a burgeoning digital sector. **According to the latest World Bank report, Pakistan ranks 46th globally in terms of nominal GDP and 24th when considering GDP adjusted for purchasing power parity (PPP) as of 2023.** The country's demographic landscape comprises approximately 232 million individuals. In terms of per capita income, Pakistan ranks 161st by GDP (nominal) and 138th by GDP (PPP). The GDP per capita (current US$) is estimated to be approximately $5,376.97, and when adjusted by PPP, it amounts to 30% of the world's average. As of January 2024, the Consumer Price Index (CPI) recorded a year-on-year inflation rate of 28.3%. The unemployment rate stood at 7% in 2023, with the total number of unemployed individuals amounting to 17.4 million[1].

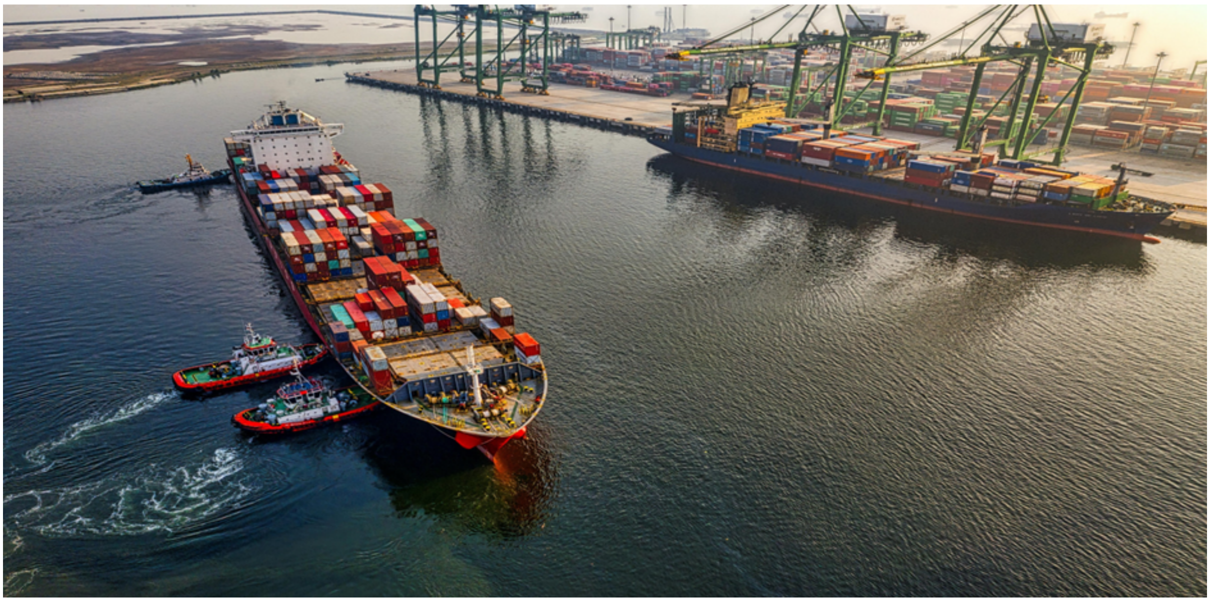
This report provides an in-depth analysis of the ease of doing business in Pakistan, examining various factors that influence business operations and the investment climate. By evaluating key indicators, regulatory frameworks, and government initiatives, it offers insights into the challenges and opportunities for businesses and entrepreneurs in Pakistan.

Analysis of Factors Influencing the Business Climate in Pakistan:

Political stability is crucial for economic growth and investment. A stable political environment fosters investor confidence, encourages long-term planning, and attracts foreign direct investment (FDI). However, Pakistan has witnessed frequent changes in government due to constitutional disputes, lack of a stable democratic system, and economic challenges. These shifts impact policy continuity, making it challenging for businesses to predict regulatory changes and plan accordingly. Political instability also deters both domestic and foreign investors, adversely affecting business decisions and economic growth.

Fiscal policies play a pivotal role in shaping Pakistan's economic trajectory. Effective management of government revenue and expenditure is essential for sustainable growth.

However, tariff rates are high in Pakistan which hinders exports and increases the cost of production for businesses. Also, there is insufficient availability of long-term financing for firms which restricts their capacity to expand export capabilities. Moreover, lack of market intelligence services affects exporters' ability to make informed decisions.



Pakistan's exports have expanded by 25.5% in recent years, but the trade deficit continues to grow due to a surge in imports.[2] The trade deficit outpaces export growth, leading to economic challenges such as greater import dependency. Pakistan relies heavily on imports for machinery, petroleum, and other essential goods. Global commodity price fluctuations affect Pakistan's trade balance.

Examination of Regulatory Frameworks Governing Business Registration, Licensing, and Permits in Pakistan:

Business Registration:

The process of business registration in Pakistan involves obtaining a National Tax Number (NTN), registering with the Federal Board of Revenue (FBR), and acquiring necessary licenses and permits from local authorities. The Securities and Exchange Commission of Pakistan (SECP) oversees company registration. Entrepreneurs can establish public companies with three or more associates or private companies with two or more associates.[3]

The first step is to submit an application for name reservation and incorporation, either through e-services or in physical form. Promoters provide three proposed names, out of which one is approved by the registrar.

Documents Required for Business Registration:

1. Memorandum and Articles of Association: These documents outline the company's name, objectives, share capital, and rules governing its operation.
2. National Tax Number (NTN) Certificate: This certificate is obtained from the Federal Board of Revenue (FBR) and is necessary for tax purposes.
3. Certificate of Incorporation: This document certifies the formation of the company as a legal entity and is issued by the Securities and Exchange Commission of Pakistan (SECP).
4. Proof of Registered Office Address: Documents verifying the physical address of the business premises, such as a lease agreement or property ownership documents, may be required.
5. Bank Account Opening Documents: These include the company's incorporation documents, NTN certificate, and identification documents of the company's directors.
6. Trade License: A trade license may be required from the relevant local authority, such as the municipal corporation or district council, depending on the nature of the business.
7. Permits and Clearances: Depending on the type of business, specific permits and clearances may be required from relevant government departments or regulatory bodies. Examples include environmental permits, health and safety certificates, and industry-specific licenses.
8. Employment-related Documents: If the business plans to hire employees, documents such as employment contracts, social security registration, and employee identification documents may be required.

Due to the large process of documentation and the subsequent hassle that comes inherently through governance issues, there are a large number of businesses that prefer not to be a part of the formal economy. Many SMEs stay part of the informal economy which decreases governmental oversight and tax generation.

Although several steps have been taken in Pakistan to make starting a business easier and more streamlined.

Comparison with Global Best Practices:

Online registration systems are used by many countries to streamline processes. For instance, Singapore's BizFile+ platform enables businesses to register, apply for licenses, and file annual returns online, thereby reducing processing time and paperwork. In Pakistan, efforts towards this end have been made, but there is a need for full integration and digitization to achieve efficiency.

One-stop shops are another strategy employed to consolidate processes and reduce hurdles. The United Arab Emirates, for example, has **"Tasheel"** centres that offer more than 15 labour-related government services. While Pakistan has some such facilities, improvements in functionality and accessibility are necessary.

Transparency and predictability in regulations are crucial for instilling confidence among businesses and investors. They reduce uncertainty and foster a conducive business environment. New Zealand's "Business.govt.nz" website is a good example of this, as it aims to help small businesses save time and succeed by providing clear information, tools, resources, and expert advice from the government and industry. However, in Pakistan, the lack of clarity and inconsistent enforcement of regulations pose challenges for businesses, leading to uncertainty and inefficiencies.

Digital platforms and automation are key to streamlining administrative processes, reducing paperwork, and shortening processing times for businesses. Estonia's "e-Residency" program is a prime example of this. It allows individuals from anywhere in the world to become digital residents of Estonia, granting them access to the country's digital infrastructure and enabling them to establish and manage businesses online. In Pakistan, the limited adoption of digital technologies highlights the need for expansion and investment in e-governance initiatives. To digitize administrative processes, improve efficiency, and enhance the ease of doing business, Pakistan should prioritize investment in digital infrastructure and e-governance solutions.

Starting a Business in Pakistan:

According to the World Bank Doing Business Report (2020), you must complete five procedures to start a business in Pakistan.[4] These include obtaining name clearance, preparing the memorandum and articles of association, obtaining digital signatures, registering with the Federal Board of Revenue (FBR), and obtaining a national tax number (NTN). The entire process takes approximately 16.5 days. The cost for starting a limited liability company is 6.7% of income per capita[5]. This includes fees for name reservation, registration, and stamp duty. Importantly, there is no requirement for paid-in minimum capital. Pakistan has undertaken several reforms and made significant improvements in business-related processes.

Evaluation of reforms implemented to streamline the business registration process:

The Punjab Information Technology Board (PITB) in Pakistan has significantly streamlined the business registration process with the introduction of an online company registration portal. This platform allows entrepreneurs to submit applications, reserve company names, and complete necessary paperwork online, reducing bureaucratic hurdles and expediting the registration process. It has made the process more accessible and efficient, encouraging more individuals to start businesses.

The establishment of a single window clearance system or one-stop shop has further simplified interactions with government agencies. Businesses can now interact with various government departments through a single platform, submit required documents, and obtain approvals seamlessly. This reform reduces delays, enhances transparency, and ensures that entrepreneurs don’t need to navigate multiple offices for approvals.

In Lahore, the Labor Department registration fee was abolished, reducing the financial burden on businesses and making it easier for entrepreneurs to comply with labour regulations. Additionally, the time required to obtain construction permits in Pakistan was significantly reduced from 285 days to 125 days, reflecting efforts to expedite processes and enhance business-friendly policies.

Pakistan has also made getting electricity easier by enforcing service delivery time frames and launching an online portal for new applications. The country has increased the transparency of electricity tariff changes, facilitating smoother operations for businesses and entrepreneurs, reducing downtime, enhancing predictability in expenses, and encouraging investment.

The introduction of online payment modules for value-added tax and corporate income tax has simplified the tax payment process and reduced administrative burdens for businesses. Furthermore, Pakistan has made trading across borders easier by enhancing the integration of various agencies in the Web-Based One Customs (WEBOC) electronic system and coordinating joint physical inspections at the port. The number of documents required for import or export has been minimized, encouraging international trade by enhancing efficiency, reducing costs, and increasing competitiveness for businesses operating in these sectors.

Finally, Pakistan has collaborated with international bodies such as the World Bank and the International Finance Corporation (IFC) to benchmark its business environment against global standards. This collaboration ensures that reforms are aligned with international best practices and boosts investor confidence.

Identification of Bureaucratic Hurdles and Administrative Bottlenecks in Pakistan:

Dealing with Construction Permits: Obtaining construction permits in Pakistan involves navigating complex approval processes, bureaucratic red tape, and inconsistent enforcement of regulations. Delays in obtaining permits hinder construction projects, leading to increased costs and project delays.

Getting Electricity: Despite the reforms, securing electricity connections in Pakistan often involves lengthy application procedures, bureaucratic inefficiencies, and frequent power outages. These challenges not only disrupt business operations but also deter potential investors who rely on stable and reliable power supply for their ventures.

Access to Credit: Access to credit for businesses in Pakistan is hindered by problems such as cumbersome lending procedures, stringent collateral requirements, and limited availability of credit information. This limits the ability of businesses, especially SMEs, to access financing for expansion and growth.

According to the information provided by the State Bank of Pakistan, despite Pakistan's population exceeding **230 million** people, the country faces a significant challenge in financial inclusion, with only **2.4%** of the population having access to credit from formal financial sources. This leaves a staggering **53%** of the adult population financially excluded. Pakistan has the third largest unbanked adult population globally with about **100 million** adults without a bank account.[6]

Analysis of FDI Trends in Pakistan: Bureaucratic hurdles and regulatory uncertainties in Pakistan deter foreign direct investment (FDI), impacting the country's economic growth and development. Investors often face challenges related to regulatory compliance, contract enforcement, and political instability, leading to reduced investor confidence and FDI inflows.

Pakistan Foreign Direct Investment (FDI) fell by 173.2 Million USD in Jan 2024, compared with an increase of 211.1 Million USD in the previous month. [7]

Infrastructure Development: Infrastructure development in Pakistan is hindered by factors such as delays in project approvals, land acquisition challenges, and regulatory bottlenecks. These hinder the timely completion of critical infrastructure projects, such as transportation networks and energy facilities, limiting economic progress and development.

Assessment of Transportation Networks: Inefficiencies in Pakistan's transportation networks, including road, rail, and ports, are exacerbated by bureaucratic inefficiencies, regulatory constraints, and inadequate infrastructure. These challenges hinder logistics efficiency, increase transportation costs, and hamper the movement of goods and people.

Analysis of Telecommunications and Internet Infrastructure: Regulatory restrictions, limited broadband access, and inadequate telecommunications infrastructure pose challenges for digital connectivity and innovation in Pakistan. Bureaucratic hurdles in licensing, spectrum allocation, and infrastructure development hinder the expansion of telecommunications and internet services, limiting access and affordability for businesses and individuals.

As of January 2023, there were approximately **87.35 million** internet users in Pakistan, with an internet penetration rate of **36.7%** of the total population.[8]

Overview of Labor Laws, Regulations, and Employment Practices: Despite the existence of comprehensive labour laws, issues such as inadequate enforcement, lack of awareness, and informal employment sectors contribute to violations of workers' rights, including low wages, unsafe working conditions, and limited access to social security benefits. Inconsistent enforcement of labour laws and regulatory uncertainties contribute to labour market inefficiencies, affecting productivity and competitiveness.

Analysis of Patent, Copyright, and Trademark Registration Processes: Lengthy procedures, inadequate enforcement mechanisms, and lack of awareness about IPR protection discourage businesses from investing in research and development and intellectual property creation.

Social and Cultural Factors: Social and cultural factors, including gender disparities, cultural norms, social inequalities, discriminatory practices, and informal networks exacerbate bureaucratic inefficiencies, impacting access to opportunities and the ease of doing business for certain segments of the population.

Corruption: Corruption remains a significant challenge in Pakistan, impacting the ease of doing business and hindering economic growth. Widespread corruption across *various sectors, including government agencies and regulatory bodies, undermines transparency, accountability, and the rule of law, leading to inefficiencies and increased costs for businesses. Bribery, nepotism, and bureaucratic red tape often obstruct the smooth operation of businesses, discouraging investment and hindering fair competition. Moreover, corrupt practices create an uneven playing field, favouring well-connected individuals or companies while marginalizing smaller businesses and entrepreneurs.

Pakistan ranks **133rd** out of 180 countries in the **2023 Corruption Perceptions Index** reported by Transparency International. The CPI assesses how corrupt a country's public sector is perceived to be. A lower rank indicates higher perceived corruption. Pakistan's corruption rank has varied over the years, with an all-time high of 144.00 in 2005 and a record low of 39.00 in 1995.[9]

Identification of barriers hindering access to finance for small and medium-sized enterprises (SMEs) in Pakistan:

Small and medium-sized enterprises (SMEs) in Pakistan face several challenges that impact their ability to secure financing and grow their businesses.[10] The complex tax system can be overwhelming, as compliance requires resources and expertise that SMEs often lack, impacting their financial stability and access to credit. Limited financial resources hinder their ability to invest in growth opportunities, expand operations, invest in technology, and innovate. Obsolete machinery and production facilities reduce their competitiveness, and the lack of modernization affects their ability to meet market demands and attract investors. SMEs are perceived as riskier borrowers due to their size and limited track record, causing banks to hesitate to lend to them for fear of potential defaults or non-repayment. Traditional collateral requirements pose a challenge as many SMEs lack tangible assets to pledge as security for loans, restricting their access to formal credit markets. They often operate with a small workforce and limited expertise, which impacts their ability to manage financial and other matters effectively. The cost of accessing formal financial services can be prohibitive due to transaction fees, paperwork, and administrative processes. Lastly, SME owners may lack knowledge about financial management, risk assessment, and business planning, further limiting their entrepreneurial expertise. These challenges collectively impact the growth and financial security of SMEs.

Government initiatives to promote innovation and entrepreneurship:

Despite these challenges, efforts are being made to improve SME financing. Initiatives like the Challenge Funds for SMEs (CFS) aim to encourage innovative solutions and digital banking tailored for SMEs in Pakistan. The goal is to enhance access to financial services and foster economic growth.

The commitment of the Pakistani government to promoting innovation and enterprise development, is evident in the financial and policy support outlined in the Federal Budget 2023-24. Measures such as allocating Rs10 billion for subsidized loans to small businesses through the PM's Youth Program and relaunching the SME Asaan Finance Scheme underscore the government's dedication to supporting SMEs. Additionally, initiatives targeting youth and women participation in the SME sector, including the inclusion of the IT sector as an SME sector and the allocation of Rs5 billion for women's empowerment, reflect the government's efforts towards inclusivity and empowerment. The reinvigoration of SMEDA, with its focus on regulatory and tax reforms, improved access to finance, and human resource development, further demonstrates the government's commitment to SME development. Moreover, the integration of entrepreneurship into the National Single Curriculum for grades 9-12 aims to foster an entrepreneurial mindset from a young age. The signing of six MOUs to create a supportive ecosystem for the SME sector highlights collaborative efforts between the government and various stakeholders in driving SME growth and prosperity in Pakistan.

Analysis of incubators, accelerators, and funding opportunities for startups:

Pakistan has seen a surge in incubators, accelerators, and funding opportunities for startups in recent years, reflecting a growing ecosystem to support entrepreneurship. Incubators such as NIC Lahore, NIC Karachi, and NIC Quetta provide comprehensive support, including mentorship, networking opportunities, and access to resources, to help startups grow and scale. Accelerators like Plan9 and Invest2Innovate offer intensive programs designed to accelerate the growth of early-stage startups through mentorship, training, and access to funding. Additionally, various funding opportunities are available for startups, including grants, equity investments, and venture capital funding from government-backed entities like Ignite, as well as private investors, angel networks, and crowdfunding platforms.

Despite these advancements, challenges such as limited access to early-stage funding, regulatory hurdles, and a nascent startup culture persist, requiring continued efforts to strengthen the ecosystem and unlock the full potential of Pakistan's startup landscape.

Identification of challenges for fostering a culture of innovation:

Limited Investment in Research and Development (R&D): Pakistan allocates a relatively small portion of its GDP to R&D, hindering innovation and technological advancement.

Lack of Collaboration between Academia and Industry: There is often a disconnect between academic research institutions and industry, limiting the translation of research into practical solutions and the commercialization of innovations.

Inadequate Intellectual Property Rights (IPR) Protection: Weak enforcement of IPR laws discourages innovation by failing to provide adequate protection for intellectual property, deterring investment in new ideas and technologies.

Shortage of Skilled Workforce: The shortage of skilled professionals, particularly in science, technology, engineering, and mathematics (STEM) fields, poses a challenge to innovation-driven industries and initiatives.

Regulatory and Bureaucratic Hurdles: Complex regulatory processes, bureaucratic red tape, and inconsistent policies create barriers for startups and entrepreneurs, stifling innovation and hindering business growth.

Opportunities for fostering a culture of innovation:

Youth Demographic: With a large and youthful population, Pakistan has a vast talent pool that can drive innovation and entrepreneurship forward with the right support and opportunities.

Emerging Technologies: Emerging technologies such as artificial intelligence, blockchain, and renewable energy offer significant potential for innovation and economic growth in Pakistan.

Global Collaboration: Collaboration with international partners, organizations, and institutions can facilitate knowledge exchange, technology transfer, and access to markets, fostering innovation and competitiveness.

Social Innovation: Addressing social and environmental challenges through innovation presents opportunities for creating impactful solutions that benefit society and drive economic growth.

Recommendations:

To improve the business environment in Pakistan, policymakers, government agencies, and stakeholders can consider implementing the following recommendations:

- **Streamline Regulatory Processes:** Simplify and digitize regulatory procedures to reduce bureaucratic hurdles and make it easier for businesses to comply with regulations, obtain licenses, and access government services.
- **Enhance Access to Finance:** Implement measures to increase access to finance for small and medium-sized enterprises (SMEs), including credit guarantee schemes, venture capital funds, and specialized financing programs tailored to the needs of SMEs.
- **Invest in Infrastructure:** Prioritize investments in critical infrastructure such as transportation, energy, and telecommunications to support business operations, facilitate trade, and stimulate economic growth.
- **Strengthen Rule of Law and Governance:** Improve transparency, accountability, and the rule of law to create a level playing field for businesses, reduce corruption, and enhance investor confidence in the legal and regulatory framework.
- **Promote Skills Development:** Invest in education and vocational training programs to equip the workforce with the skills needed to meet the demands of a modern economy, including technical skills, digital literacy, and entrepreneurship training.
- **Foster Innovation and Entrepreneurship:** Create an enabling environment for innovation and entrepreneurship by supporting research and development, providing incentives for innovation-driven businesses, and promoting collaboration between academia, industry, and government.
- **Facilitate International Trade:** Simplify trade procedures, reduce tariffs and non-tariff barriers, and enhance customs efficiency to promote international trade, attract foreign investment, and expand market access for Pakistani businesses.
- **Promote Social Inclusion and Sustainability:** Adopt policies and initiatives that promote social inclusion, gender equality, and environmental sustainability to ensure that economic growth benefits all segments of society and is environmentally sustainable in the long run.

Way Forward:

President Syed Maaz Mahmood of the **All-Pakistan Business Forum (APBF)** has underscored the urgent need for substantial policy reforms in 2024 to address Pakistan's persisting challenges in the ease of doing business index. With Pakistan trailing behind its global counterparts, ranking 108 out of 190 countries in the recent Ease of Doing Business Index, Syed Maaz Mahmood has highlighted the pressing regulatory obstacles hindering business operations. [11]He advocates for targeted interventions, specifically focusing on simplifying the cumbersome process of acquiring necessary permits and authorizations for business ventures. He proposed a concentrated effort to streamline the issuance of NOCs required by federal regulatory agencies for business incorporation and operations. This proposed policy aims to standardize and expedite business registration and authorization procedures across federal and provincial regulatory bodies, fostering a more conducive environment for investment and entrepreneurial endeavours. These reforms, if effectively implemented, hold the potential to elevate Pakistan's competitiveness in the global business arena, paving the way for enhanced economic growth and prosperity.

Conclusion:

In conclusion, Pakistan has made significant strides in improving the ease of doing business. Since 2016, nearly 300 reforms have been implemented to enhance the investment climate. As a result, Pakistan climbed 39 positions in the Ease of Doing Business (EODB) ranking over the last two years, reaching the 108th position globally.[12]

Notably, Pakistan was recognized as the top reformer in South Asia and the sixth reformer worldwide. However, there are remaining challenges that must be addressed to unlock its full economic potential. Streamlining regulatory processes, enhancing access to finance, investing in infrastructure, and fostering a culture of innovation and entrepreneurship are essential steps towards creating a more conducive business environment**. By implementing targeted reforms and promoting collaboration between government, private sector, and civil society stakeholders, Pakistan can further improve its ranking in global ease of doing business indices and attract investment, spur economic growth, and create opportunities for prosperity and development.** Sustainable economic development requires concerted efforts to address structural issues, promote inclusive growth, and create a conducive business environment for domestic and foreign investors.

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