OICCI

Overseas Investors Chamber of Commerce and Industry

PERCEPTION AND INVESTMENT SURVEY

2013

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.

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Vision

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

Mission

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

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Disclaimer

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

INTRODUCTION

About us

Established over 150 years ago in 1860 primarily as a business chamber for foreign investors, the Overseas Investors Chamber of Commerce (OICCI) not only safeguards and promotes diversified foreign investment in Pakistan but also facilitates commerce and industry across the country.

The 196 OICCI member companies – 57 of whom are listed on the Karachi Stock Exchange – with foreign shareholding from 35 different countries, are collectively represented in 14 sectors, contribute more than 33% of Pakistan's total tax revenue and provide direct or indirect employment to over one million people.

OICCI members are major contributors to various CSR activities in education, health and other sectors, besides making significant contributions in cash and kind for welfare of people affected by natural calamities.

International trade delegations, visiting Pakistan, interface with OICCI to gauge various aspects of the country's investment climate. OICCI also highlights incentives offered by the government to potential investors and shares the experience and successes of it's members in Pakistan at national and international investment forums.

OICCI also issues policy statements on various matters related to taxation, intellectual property rights, free trade agreements and other business areas. The annual OICCI taxation proposals, that include specific suggestions on enhancing the tax base and documentation of the economy, are widely appreciated by the Federal Board of Revenue (FBR) and other stakeholders.

Activities

As mandated, OICCI is engaged in several value-added activities, including catalyzing Foreign Direct Investment (FDI), enforcement of intellectual property rights, creating a level playing field in the areas of taxation, tariffs protection, international quality standards, physical safety and security of member companies, employees and assets, 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 total FDI in the country in fiscal year 2012-13 was only US$ 1.447 billion, OICCI's members invested US$ 1.4 billion in capital expenditure in the year 2012, mostly from their own resources.

OICCI also communicates with stakeholders, conducts research and disseminates business knowledge, hosts and participates in seminars, promotes good governance by dialoguing on regressive policies and garners opinions and perceptions through business-related surveys.

All such activities are carried out through active dialogue with government and regulatory bodies to formulate business-friendly policies that serve as a reference point for foreign investors.

OICCI's recent research and publications include:

- **Business Confidence Index: August 2013**
- **OICCI Taxation Proposals 2013-14**
- **Energy Challenges – OICCI Position Papers on**
  - **Transforming the Power Sector**
  - **Road Map for Energy Efficiency and Conservation**
  - **Natural Gas Value Chain Enhancement**
  - **Fast Tracking of Liquefied Natural Gas (LNG) Import**

Managing Committee

The OICCI is governed by a 12-member managing committee, from which 8 members and one vice president are elected annually. For continuity, the elected vice president is nominated president in the following year.

Only chief executives of member companies can be part of the managing committee.

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

Criteria for Membership

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

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 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 minimum US$ 0.5 million in foreign shareholding. The foreign shareholder must operate in at least two other jurisdictions / countries besides Pakistan and have group paid-up share capital in excess of US$ 5 million or equivalent

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

Need for a Perception and Investment Survey

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

This informed view can lead to meaningful debate on the right forums, enabling appropriate policy reform by regulators benefiting commerce and industry.

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

Scope of the Survey

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

The survey questionnaire was updated and modified to seek specific input on current 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, covered successful political transition and concerns regarding circular debt, foreign exchange account position and optimism on completion of structural benchmarks under the IMF programme.

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

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

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

EXECUTIVE SUMMARY

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

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

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

The potential for business growth and opportunities in Pakistan has resulted in nearly all existing foreign investors indicating they intend to continue operating in Pakistan and around two-thirds of the respondents plan to expand operations. In fact, forty four percent plan to invest more over the next 1 to 3 years than the investments they made in the same timeframe earlier, whereas forty six percent will invest more in the next 4 to 5 years as compared to the corresponding period.

Moreover, fifty two percent of the respondents plan to increase their employee rolls, which is good news not only for the country's youth but also for the authorities.

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

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

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

The insufficient protection of trademarks and intellectual property rights also rankles with the business community. Investors continue to have negative sentiments for the "Clarity / Fairness of Laws and Regulations", "Contract Enforcement" and "Level Playing Field", despite some improvement over the 2011 survey.

OICCI will continue to be engaged to work with the federal and provincial government, to advise them in professionally and proactively managing the above negative perceptions through good governance and consistent implementation of policies. The dividend of improved perception, we believe, could translate into huge increase in investment and economic activity in the country.

The ongoing security situation, especially in Karachi, the headquarters of over seventy percent of the members, has resulted in law and order being again ranked as the biggest challenge facing the business community closely followed by energy, as in the 2011 survey.

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

"Cost of Doing Business" and "Governance" are other major points. The issue of good governance or efficient policy implementation remains a key outstanding issue. Lack of clarity and bottlenecks in tax policy and refund claims also continue to beleaguer investors despite regular engagement with concerned authorities and their assurance to address the same.

The devolution of powers from the federation to the provinces has not found favour by respondents, with forty seven percent viewing the development negatively. The main reason for this is conflict between FBR and provincial revenue boards tax laws where unresolved conflicts have led to tax demands by more than one authority on the same transaction. Several respondents have, in fact, taken legal recourse for stay of such multiple demands.

The other point of concern relates to the pharmaceutical sector where the setting up of a Drug Regulatory Authority after a protracted struggle has not resulted in establishment of some key policies and ground rules, like clear guidelines for fixing of the sale prices of pharmaceutical products, new drug registration and contract manufacturing considered indispensable for smooth business operations.

Though a large number of members perceive government policies favorably, sixty six percent are critical of policy implementation. While eighty two percent of the respondents believe the government is aware of the issues facing investors, sixty seven percent doubt the government's sincerity in resolving them while another forty three percent think the government is incapable of providing redress due to capacity or financial constraints.

Another area of concern for investors is "Contract Enforcement" where average time for dispute resolution is over seven years and members have reported cases pending for over fifteen years. Similarly, the average time of over two years taken for "Enforcement of Judgment" is a negative reflection on the law enforcement structure.

It is these negative perceptions that have led forty two percent of the respondents to contend that doing business in Pakistan carries high risk, fifty five percent opining risks are "medium" and only three percent perceiving low risk. Even so, the positive aspect is that high risk rating has reduced by twelve percent compared to the 2011 survey when fifty four percent respondents considered business risk to be high in Pakistan and only one percent considered it low.

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

The good news for the government is that a large majority or eighty three percent of OICCI members have hopes the present government will improve the business climate, with seventy five percent of the members stating they will now recommend more foreign direct investment into Pakistan. Respondents also expect government to resolve issues, rectify regressive policies and enhance accountability in governance in a timely manner.

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

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

M. Abdul Aleem
Secretary General / CE

Kimihide Ando
President

RESPONDENTS' PROFILE

Of the 190 members of OICCI at the time of the survey, **112 members, or 59%, responded to the survey.** Members are categorized into 14 sectors based on industries they represent; members from 12 of these sectors participated in the survey. Only the Tobacco and the Printing & Publishing sectors, consisting of four OICCI members, abstained. The figure below illustrates the sector-wise participation of 112 survey respondents.

Respondents from the financial services sector closely followed by the energy, pharmaceutical, chemical and fertilizer, engineering / industrial products, trading & other services comprised more than two third of the pie. Those sectors which formed a minimal portion of the pie have only a few members in the respective sectors.

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

ANALYSIS OF FINDINGS

SECTION I: BUSINESS ENVIRONMENT

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

EASE OF DOING BUSINESS – A COMPARISON WITH REGIONAL COUNTRIES

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

Figure 1(a)

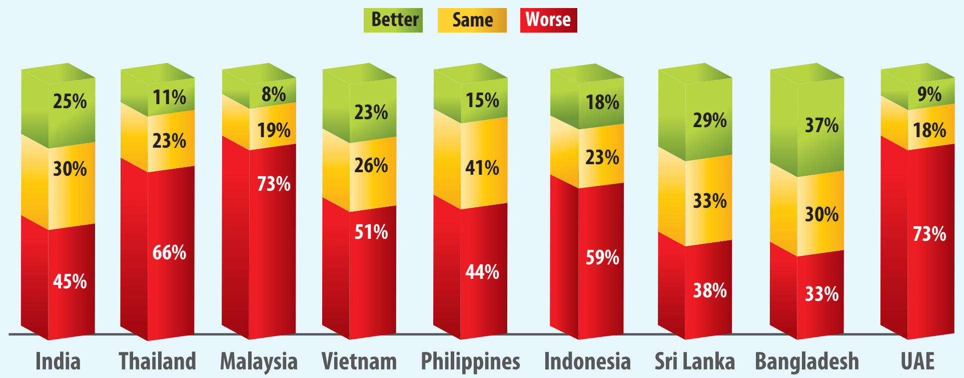
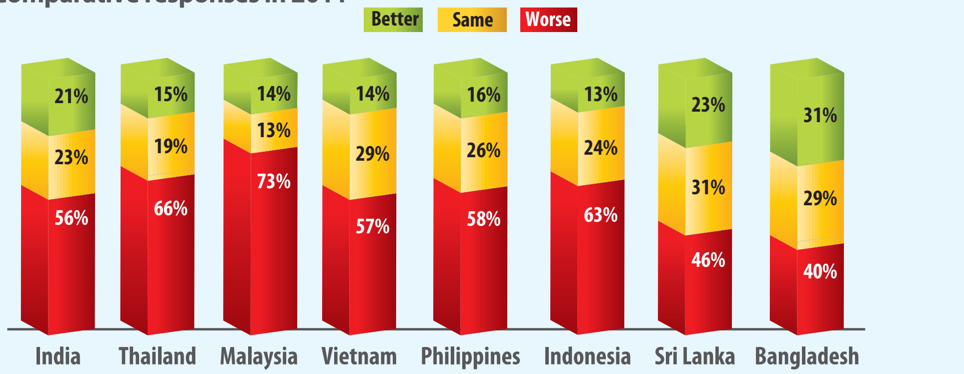


Figure 1(b)

Comparative responses in 2011

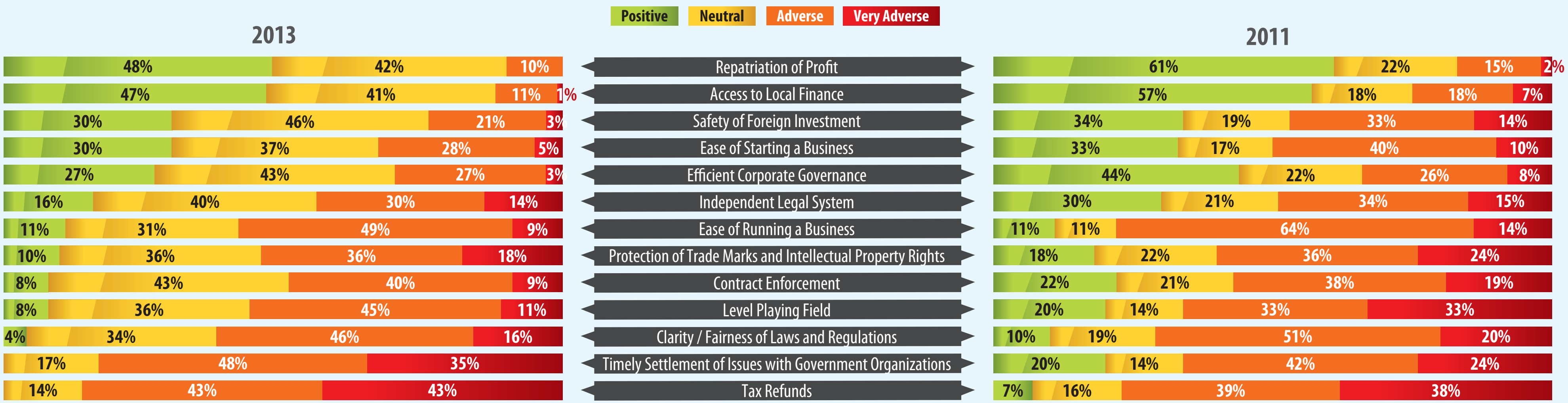


ASPECTS OF DOING BUSINESS IN PAKISTAN

The Survey evaluated Ease of Doing Business on thirteen parameters or Aspects of Doing Business.

- Perceptions on ' Ease of Running a Business' and 'Ease of Starting a Business' have significantly improved as there is a drop of 20% and 17% respectively in the adverse sentiments, as compared to the 2011 survey. This is a positive message for attracting new investors to Pakistan.
- The Survey reveals that Pakistan continues to be ranked favorably for certain aspects of doing business, like the 'Repatriation of Profit' and 'Access to Local Finance', reflecting the liberal and investor-friendly policies which are appreciated by foreign investors, although there is a drop in the rating of both these factors, perhaps due to some delays in approvals for remittances on account of the foreign exchange reserves situation at the time of the survey. This declining trend compared to 2011 should be a cause of concern for the government which needs to look in to these matters to ensure a better business climate compared to regional economies.
- On the flipside, the delay in settling tax refunds and timely resolution of issues with government organizations remains a serious challenge to business operations mainly arising due to the devolution of federal subjects to the provinces. These two issues have become major irritants to businesses, as can be noted by the adverse evaluation by 86% of respondents. Delay in settlement of tax refunds contributes to increasing cost of doing business.
- The unsatisfactory protection of Trade Marks and Intellectual Property Rights continues to frustrate the business community.
- The survey showed mixed sentiments for 'Efficient Corporate Governance', 'Safety of Foreign Investment' and "Independent Legal System' as the negative and positive ratings both dropped as compared to 2011 and most respondents have opted for 'Neutral' rating.
- A significantly high proportion of investors continue to have negative sentiments for the 'Clarity / Fairness of Laws and Regulations', 'Contract Enforcement' and 'Level Playing Field', although there is some improvement as compared to 2011 relating to these aspects of doing business.

Figure 2



CONTRACT ENFORCEMENT

- Although the average time is 7.4 years, members have reported cases still pending after more than 15 years for resolution of commercial disputes.
- The time taken for 'Enforcement of Judgment' casts a negative reflection on the law enforcement structure.
- Long delays in resolution of disputes and enforcement of judgments, are adding significantly to the cost of doing business and reflects negatively on our legal system.
- Average cost incurred for the resolution of a standardized commercial dispute through the courts is 17% of the claim value.

TAX REFUNDS

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

Figure 3

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

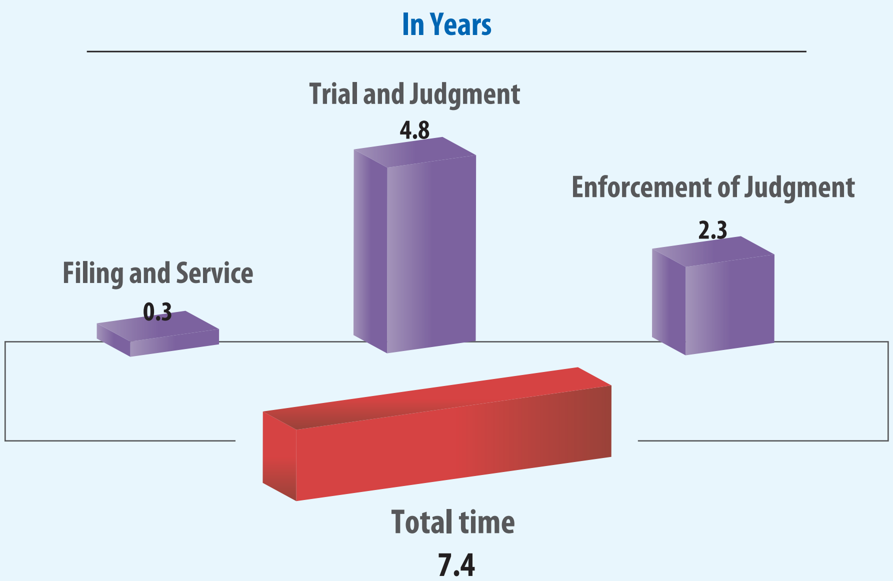


Figure 4(a)

Timelines for settlement of Tax Refunds

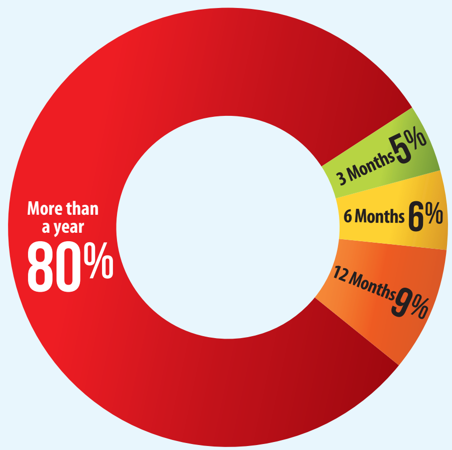
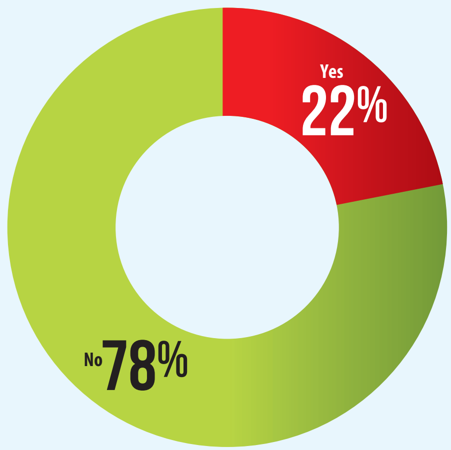


Figure 4(b)

Unethical approaches for expediting Tax Refunds



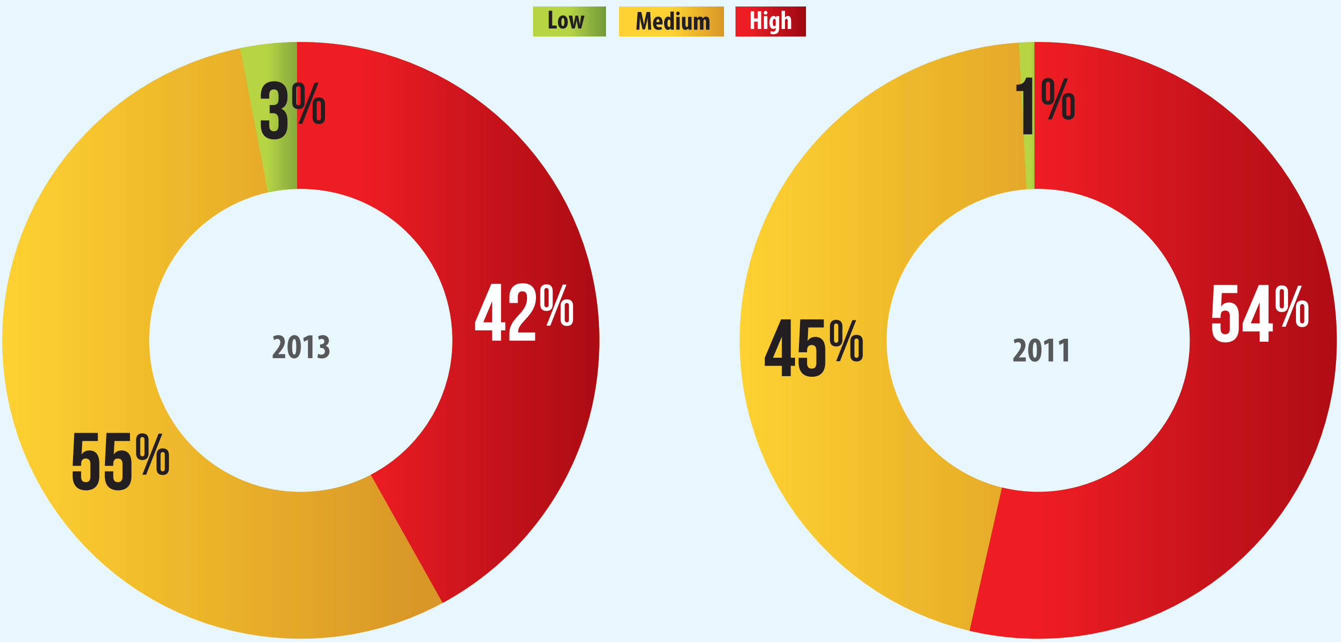
BUSINESS RISK IN PAKISTAN

- The 2013 survey responses, as given in the chart below, should be encouraging for policy makers as the 'High Risk' rating for Pakistan as a venue for investment, has reduced to 42% from 54% in 2011.
- Sector wise responses are evenly divided except for Energy sector where the emphasis is less on the high risk and more on medium risk. The low risk classification has been given by some of the respondents from the trading sector.

Important Business Risks Identified

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

Figure 5



SECTION II: TOP CHALLENGES

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

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

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

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

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

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

Figure 6

SECTION III: GOVERNANCE

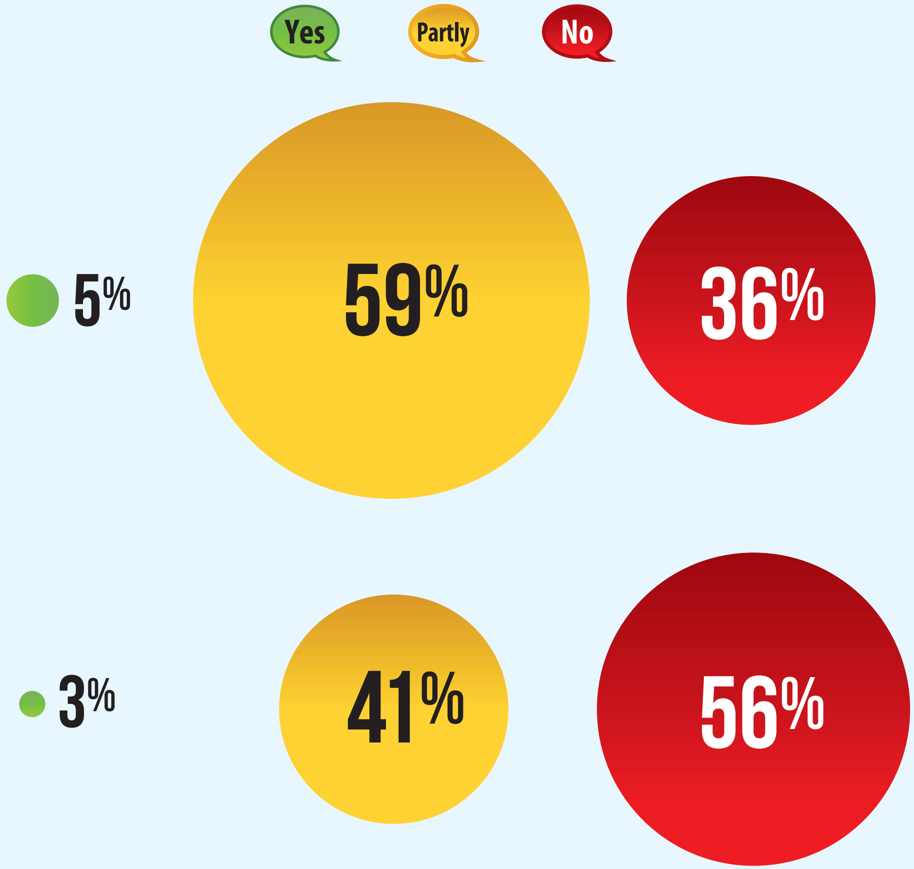
GOVERNMENT POLICIES

- A significant majority is only partially satisfied with the current business policies. It may however be noted that the survey was conducted during the first three months of the PML (N) government.
- Policy implementation is considered to be a serious issue negatively impacting foreign investors. An overwhelming majority of the respondents recommend strict and timely enforcement of the existing policies.

Figure 7

Are you satisfied with present business policies of the governement ?

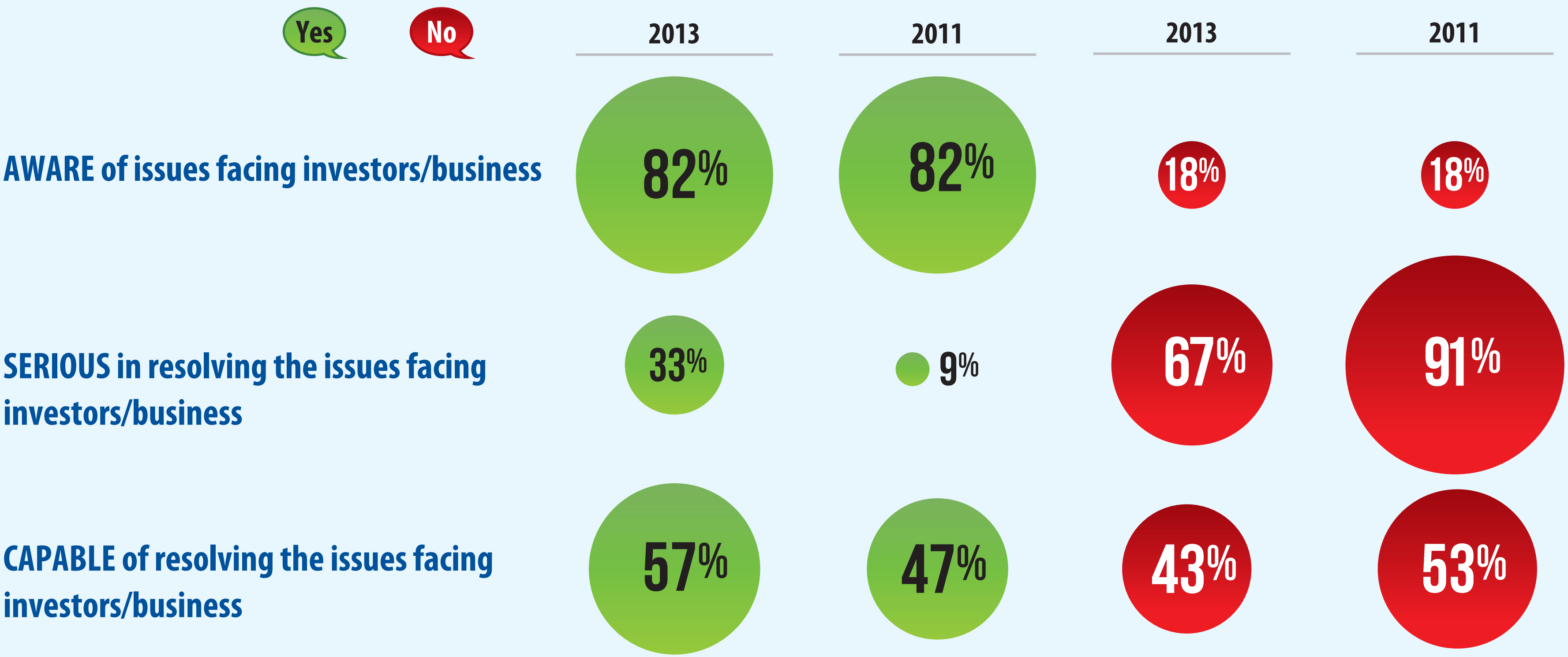
Are you satisfied that these policies are implemented effectively and timely ?



- An overwhelming majority of foreign investors believe that the Government is aware of the problems faced by the business community, but still lacks the political will or 'seriousness' required to tackle these issues.
- The Government does not seem to have gained full investor confidence as respondents feel that the authorities are unable to resolve investor issues either due to lack of capacity or financial constraints.

Figure 8

Experiences with the Government of Pakistan and its functionaries-is the Government

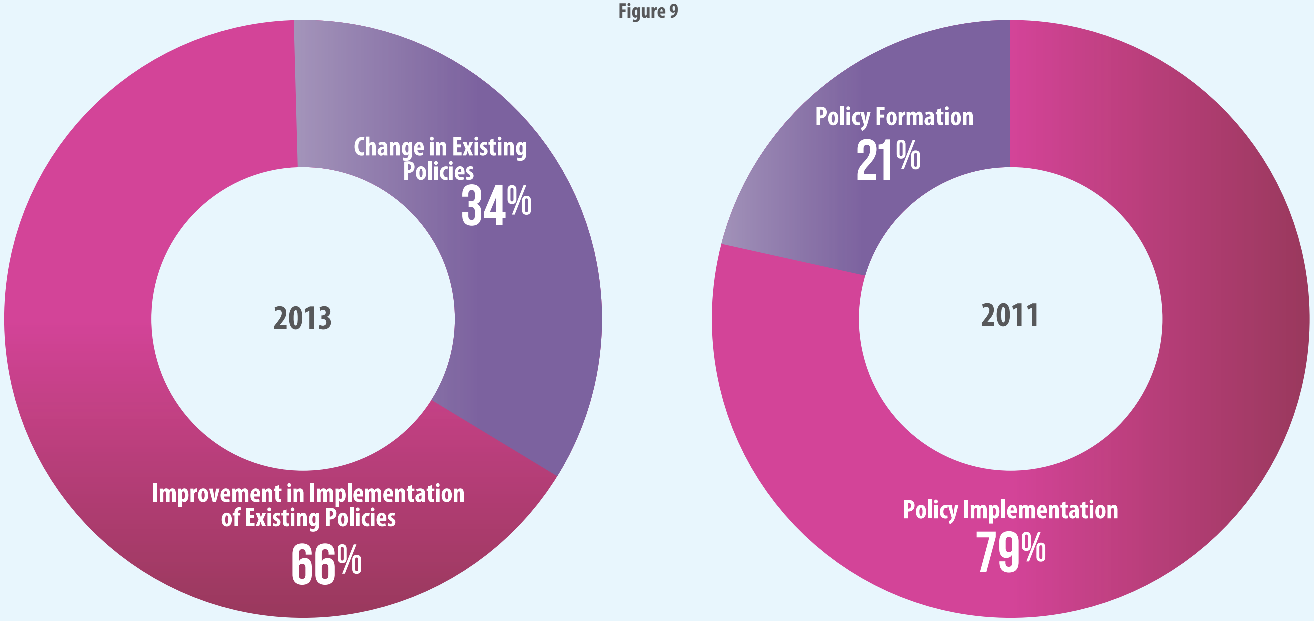


OBSTACLE TO BUSINESS

Change Vs. Improvement in Implementation of Existing Policies

- The government's ability to implement existing policies and regulations continues to be a major issue, as reflected from the feedback given below.
- However, foreign investors believe implementation has improved over the last two years as borne out by the negative perception reducing from 79% in 2011 to 66% in 2013.
- However the flipside is that more than one-third of the respondents, 13% higher than 2011 have indicated that the government should change existing policies to introduce a range of institutional and economic reforms aimed at boosting productivity and growth, leading to improvement in the country's business competitiveness and promoting private sector development.

Figure 9



INVESTOR CONFIDENCE

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

Figure 10(c)

Expectations from the new government on improvement of business climate-compared to 2008-2013

Yes No

Figure 10(a)

Does the government involve key stakeholders in decision making

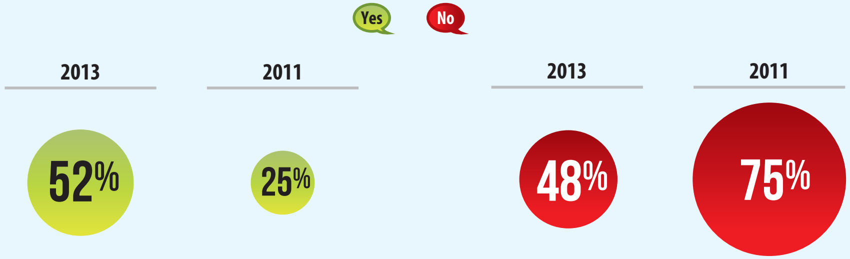
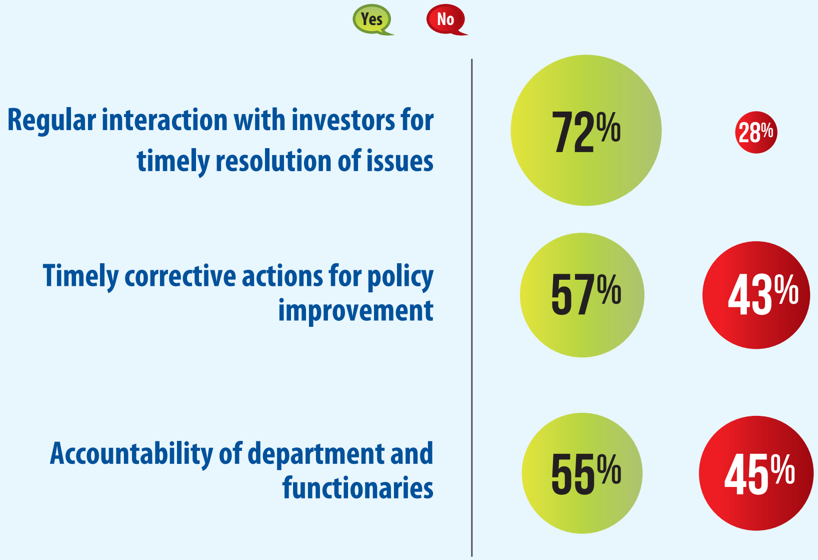


Figure 10(b)

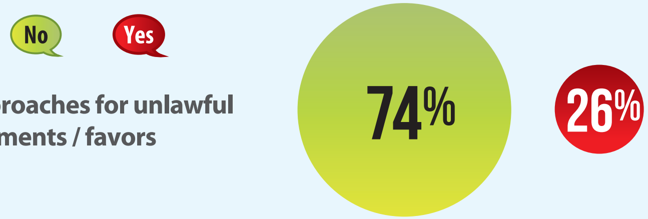
Expectations for introducing an effective policy framework



UNETHICAL PRACTICES

- Despite a common social perception that demand for unlawful payments exists in Pakistan, 74% of respondents stated that they have not been approached for unlawful payments and favors and furthermore such solicitations have decreased as compared to 2011.

Figure 11



Approaches for unlawful payments / favors

GOVERNMENT MINISTRIES AND REGULATORY BODIES

Performance of 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 were considered relevant for our members based on the frequency of interaction.
- The results give somewhat mixed reactions for the very important Ministry of Finance. In comparison to the 2011 survey there is a drop of 7% in supportive rating. Perhaps this can be attributed to major taxation matters like tax refunds, not introducing new reforms for broadening tax net and unresolved issues of coordination/harmonization between central and provincial revenue boards.
- A good proportion of respondents seem to have received better support from the Ministries of 'Commerce', 'Petroleum and Natural Resources', 'Water and Power' and 'Interior' as compared with the situation in 2011 which can be noted from the decline in unsupportive rating for all these ministries.
- The Planning and Development ministry which was previously operating as a regulatory body titled 'Planning Commission of Pakistan' has received same rating as in 2011. The Ministry of Environment also gets the same rating as in 2011.
- The survey results are reflective of the interaction of the members with the different ministries over the last two years since the last survey was conducted.
- 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 from the members perspective.
- The number of initiatives being taken by the different ministries after the change of government and performance of the ministries after the settling-in period may change in the coming months leading to an altogether different rating.

Figure 12(a)

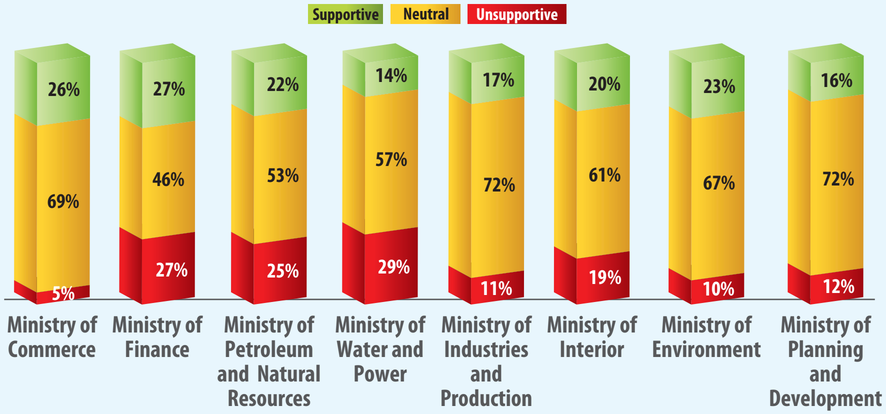
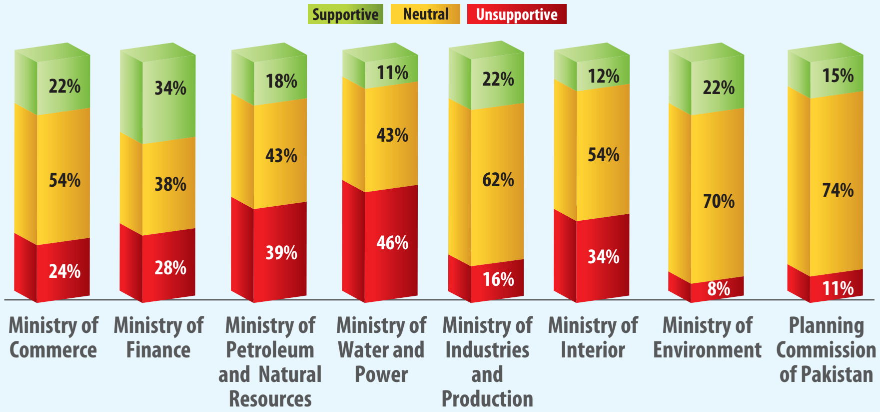


Figure 12(b)

Comparative responses in 2011

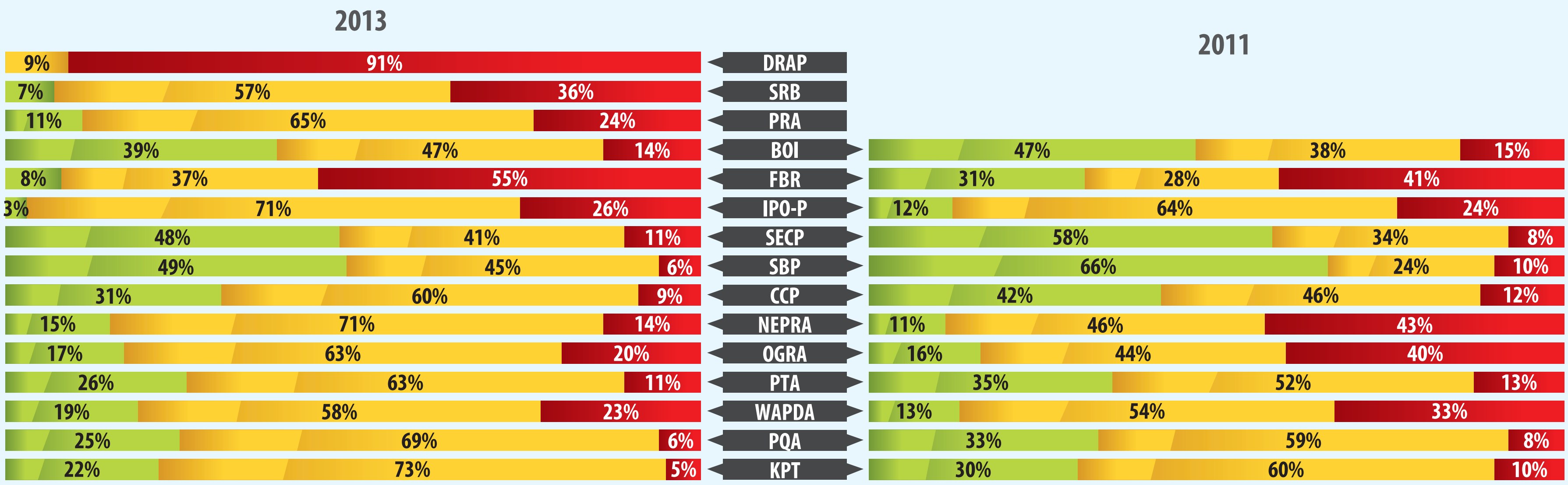


Performance of the Regulatory Authorities

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.

- In general the foreign investor confidence level declined significantly for 'Intellectual Property Organization-Pakistan (IPO-P)', 'State Bank of Pakistan (SBP)', 'Securities and Exchange Commission of Pakistan (SECP)', 'Competition Commission of Pakistan (CCP)' and 'Pakistan Telecommunication Authority (PTA)' as compared to the 2011 survey.
- The 'Drug Regulatory Authority of Pakistan (DRAP)' has received a big negative marking mainly due to the fact that despite the setting up of DRAP after a protracted pharmaceutical industry engagement with the government, the regulatory framework was missing at the time of this survey.
- The Energy sector is generally supportive towards the energy/power regulatory bodies perhaps due to a combination of settlement of circular debt within a short time after the new government took over and also because the government is seen as focusing on solution of the energy crisis at the highest level.
- However, SECP and SBP fared better than other regulatory bodies with over 48% of respondents showing satisfaction with their performance.
- The negative response for 'Federal Board of Revenue (FBR)' seems to be on account of the ongoing issue of delay in refund claims involving many members as well as the cumbersome and detailed documentation process required before claims are allowed. Similarly, the long unresolved conflicts of interests between the federal and provincial revenue boards have negatively impacted the business community and this is reflected in the responses given by the members for the 'Sindh Revenue Board (SRB)' and 'Punjab Revenue Authority (PRA)'.

Figure 13 Supportive Neutral Unsupportive



BOI: Board of Investment, **FBR:** Federal Board of Revenue, **IPO-P:** Intellectual Property Organization of Pakistan, **SECP:** Securities and Exchange Commission of Pakistan, **SBP:** State Bank of Pakistan, **CCP:** Competition Commission of Pakistan, **NEPRA:** National Electric Power Regulatory Authority, **OGRA:** Oil and Gas Regulatory Authority, **PTA:** Pakistan Telecommunication Authority, **WAPDA:** Water and Power Development Authority, **PQA:** Port Qasim Authority, **KPT:** Karachi Port Trust, **PRA:** Punjab Revenue Authority, **SRB:** Sindh Revenue Board, **DRAP:** Drug Regulatory Authority of Pakistan

SECTION IV: TRADE & FISCAL POLICIES

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

TRADE POLICIES

Trade with India

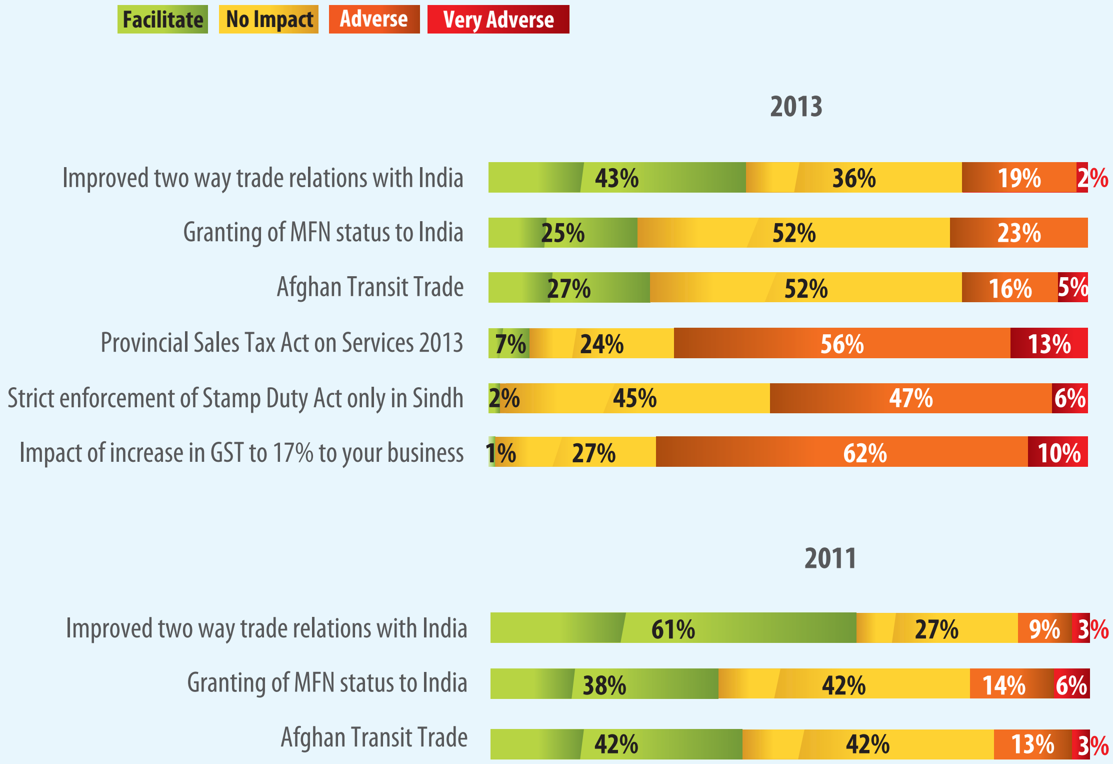
- It seems that some members have changed their opinion about trade with India perhaps due to rigidity on the Indian side about removal of tariff and non-tariff barriers. The current survey results indicate that members are not so keen for trade with India as compared to the responses of 2011, showing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

Afghan Transit Trade

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

Figure 14

Impact of Trade and Fiscal Policies



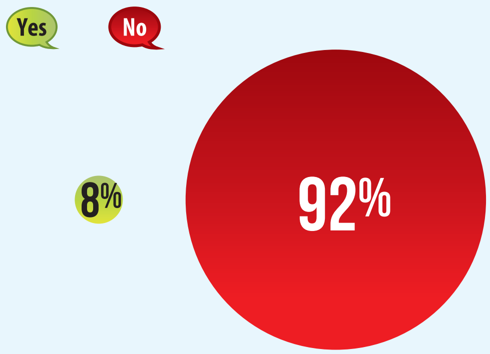
FISCAL MEASURES

Taxes and Levies

- Majority of respondents perceive that the 2013 Provincial Sales Tax Acts on Services enacted by the Punjab and Sindh provinces, have an adverse impact on their business. 69% respondents have strongly criticized provincial taxes mainly due to the coordination and harmonization issues as the positions taken by the federal and provincial revenue authorities are in conflict with each other.
- A clear majority of respondents state that an increase of 1% in General Sales Tax has had an adverse impact on inflation, while 27% hold a neutral perspective.
- Strict enforcement of stamp duty on purchase orders continues to be an issue for businesses based in Sindh, contributing to increased costs of doing business. It may be noted that this issue has not yet arisen in other provinces.
- The government should take note of the overwhelming majority of respondents who believe that insufficient tax broadening measures have been taken in the Finance Act 2013-14 and members are of the opinion that the government has missed the opportunity of widening the tax net.

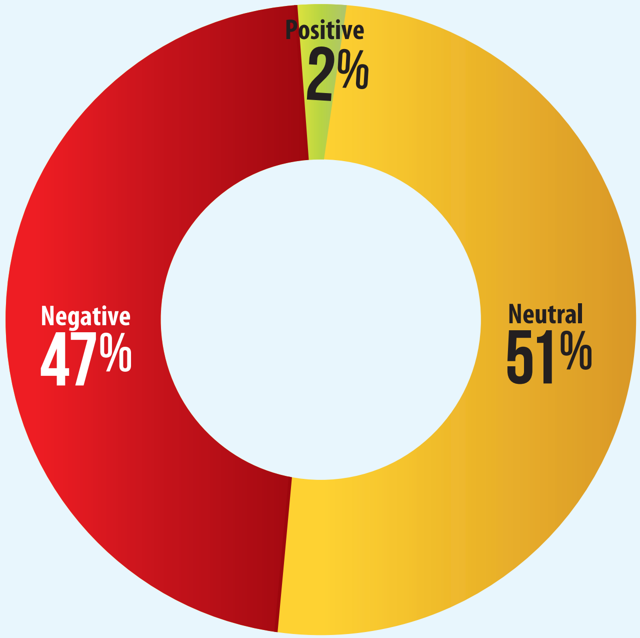
Figure 15

Respondents Satisfaction with Tax broadening measures



IMPACT OF 18TH CONSTITUTIONAL AMENDMENT ON BUSINESS

Figure 16



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

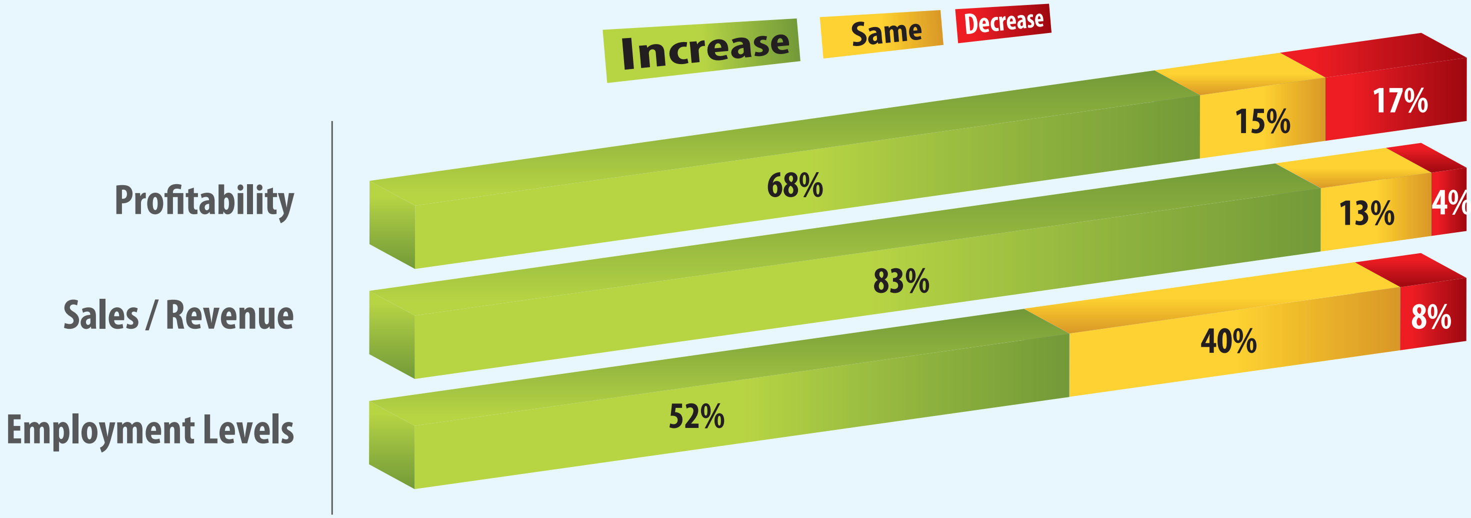
SECTION V: OPERATIONAL/ INVESTMENT PLANS AND SELECTED FINANCIAL NUMBERS

GROWTH IN THE NEXT 2-3 YEARS

- Despite the environmental and energy challenges, as well as the ever increasing cost of doing business most respondents remain optimistic, about future growth, as clearly shown in the below figure. The perceived impact of inflation and it's relationship on different Profit & Loss lines is also discernible with 83% respondents more positive on sales/revenue growth and only 68% on profitability.
- As a consequence to the expected revenue growth, 52% of the respondents expect increase in their headcount to meet the growth targets in the coming years.
- There was however a small 4% minority who expect reduced revenues while 17% perceive lower profits.
- Lower profitability responses are mainly from the Pharmaceutical sector but also include some members from the Oil, Energy and Automobile sectors.

Figure 17

Projected Growth



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

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

Operation Plans

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

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

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

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

Figure 18

Operation Plans

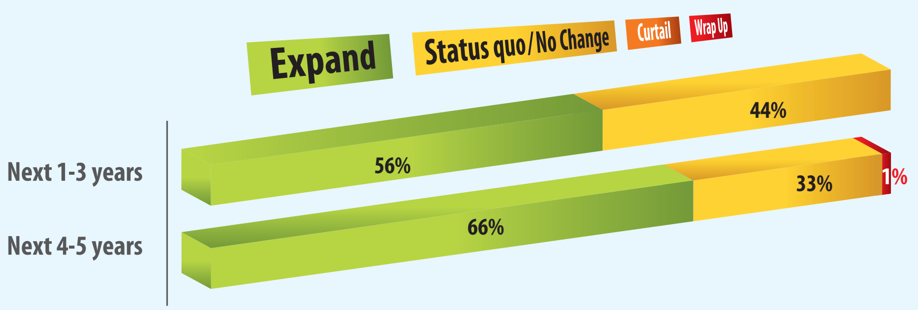
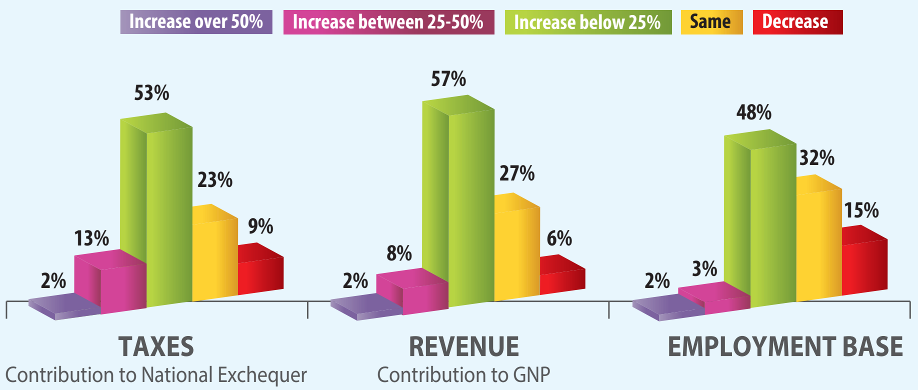


Figure 19

Contribution to the Economy



NEW INVESTMENTS

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

- Improved perceptions, is due to the fact that foreign investors have done very well in terms of their bottom lines, as per listed companies' published reports.
- Although respondents have indicated fresh foreign equity injection for expanding their business, majority of them intend to finance new investments from retained earnings.
- Majority of the FMCG's and Financial Services sectors respondents have indicated more investments as compared to the corresponding past period while 33% respondents from the pharmaceutical sector have indicated a decrease.

Figure 20(a)

Planned Investment

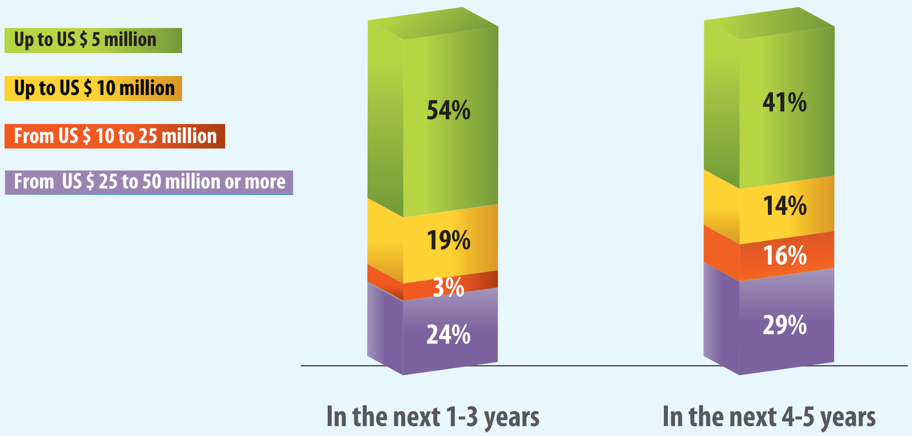
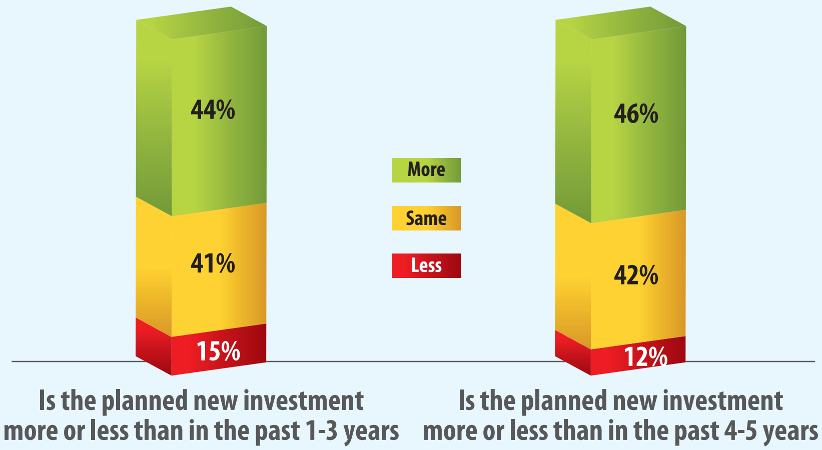


Figure 20(b)

New Investment vs. Comparative Previous Period



SELECTED FINANCIAL INFORMATION

Total Paid-up Capital
PKR 552 Billion
of 94 OICCI Members

Value of Total Assets
PKR 6,128 Billion
of 138 OICCI Members

Capital Expenditure
PKR 129 Billion
by 126 OICCI Members

Gross Revenue
PKR 2,471 Billion
of 94 OICCI Members

Total Levies paid to Federal and Provincial Governments
PKR 724 Billion
by 138 OICCI Members

- The above numbers are based on members' financial statements for the year ended 31st December 2012 or 30th June 2013, respectively.
- Levies paid include income tax, sales tax, custom duties and excise duties.
- These numbers are based on the information given by the participating companies as well as numbers taken from published financial data of member companies.
- Several OICCI members' paid-up capital is 100% owned by foreign shareholders.

RESEARCH METHODOLOGY

The 2013 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 and Selected Financial Numbers

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

The Survey's findings are represented in percentages which are 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 a quick interpretation of results.

As in the previous surveys, the 2013 survey provides a variety of response options for different questions in order to elicit responses which give general positive, negative or neutral positions on various aspects of the business environment and governance in the country.

For questions 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 2013 questionnaire can be viewed on our website www.oicci.org**

ANNEXURE

LIST OF PARTICIPATING COMPANIES – TOTAL 112

AUTOMOBILE
1. Atlas Honda Limited
2. Indus Motor Company Limited

CHEMICALS / PESTICIDES / FERTILIZERS / PAINTS / CEMENT
1. Akzo Nobel Pakistan Limited
2. BASF Pakistan (Private) Limited
3. Berger Paints Pakistan Limited
4. Clariant Pakistan Limited
5. Dawood Hercules Corporation Limited
6. Engro Corporation Limited
7. Engro Vopak Terminal Limited
8. ICI Pakistan Limited
9. Kansai Paints (Private) Limited
10. Linde Pakistan Limited
11. Lotte Chemical Pakistan Limited
12. Nalco Pakistan (Private) Limited
13. Nippon Paint Pakistan (Private) Limited
14. Syngenta Pakistan Limited

ENGINEERING / INDUSTRIAL PRODUCTS
1. Aisha Steel Mills Limited
2. Alstom Grid Pakistan (Private) Limited
3. Exide Pakistan Limited
4. J&P Coats Pakistan (Private) Limited
5. General Tyre and Rubber Company of Pakistan (The)
6. Johnson and Phillips Pakistan Limited
7. KSB Pumps Company Limited
8. Pakistan Cables Limited
9. Philips Electrical Industries of Pakistan Limited
10. Schneider Electric Pakistan (Private) Limited
11. Siemens Pakistan Engineering Company Limited
12. Singer Pakistan Limited

FINANCIAL SERVICES
1. ACE Insurance Limited
2. Al Baraka Bank Pakistan Limited
3. Bank Alfalah Limited
4. Bank of Tokyo - Mitsubishi UFJ (The)
5. BMA Capital Management Limited
6. Burj Bank Limited
7. Citibank N.A. - Pakistan Branches
8. HSBC Bank Middle East Limited
9. Industrial Promotion Services Pakistan Ltd.
10. J.P. Morgan Pakistan (Private) Limited
11. KASB Securities Limited
12. MCB Bank Limited
13. Meezan Bank Limited
14. NBP Fullerton Asset Management Limited
15. NIB Bank Limited
16. Orix Leasing Pakistan Limited
17. PAIR Investment Company Limited
18. Pak Oman Investment Company Limited
19. Pak - Kuwait Takaful Company Limited
20. Standard Chartered Bank Pakistan Limited
21. United Bank Limited

FOOD / CONSUMER PRODUCTS
1. Coca-Cola Beverages Pakistan Limited
2. Gillette Pakistan Limited
3. Gray MacKenzie Restaurants International Limited
4. IFFCO Pakistan (Private) Limited
5. Nestle Pakistan Limited
6. Procter and Gamble Pakistan Limited
7. Rafhan Maize Products Company Limited
8. Tetra Pak Pakistan Limited

IT AND COMMUNICATION
1. Teradata Pakistan (Private) Limited
2. TRG (Private) Limited

OIL / GAS / ENERGY
1. Attock Refinery Limited
2. Byco Petroleum Pakistan Limited
3. ENI Pakistan Limited
4. Fauji Oil Terminal and Distribution Company Limited
5. General Electric International Operations Co. Inc.
6. International Power Global Developments Limited
7. Karachi Electric Supply Company Limited (The)
8. Kot Addu Power Company Limited
9. Kufpec Pakistan Holdings B.V.
10. Kuwait Petroleum Corporation
11. Pak Arab Pipeline Company Limited
12. Pak-Arab Refinery Limited
13. Pakistan Petroleum Limited
14. Pakistan Refinery Limited
15. Rousch Pakistan Power Limited
16. The Hub Power Company Limited
17. Uch Power (Private) Limited
18. United Energy Pakistan Limited

PHARMACEUTICAL
1. Abbott Laboratories Pakistan Limited
2. B. Braun 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. GlaxoSmithKline Pakistan Limited
8. Lundbeck Pakistan (Private) Limited
9. Merck (Private) Limited
10. Novartis Pharma Pakistan Limited
11. OBS Pakistan (Private) Limited
12. Otsuka Pakistan Limited
13. Pfizer Pakistan Limited
14. Reckitt Benckiser Pakistan Limited
15. Roche Pakistan Limited
16. Sanofi Aventis Pakistan Limited
17. Servier Research and Pharmaceuticals Pakistan (Private) Limited

SHIPPING AND AIRLINES
1. James Finlay Limited
2. Qasim International Container Terminal Pakistan Limited (DP World)
3. Ray Shipping Enterprises Limited

SECURITY SERVICES
1. Phoenix Armour (Private) LimitedA

TELECOMMUNICATIONS
1. Pakistan Mobile Communications Limited
2. Telenor Pakistan (Private) Limited

TRADING AND OTHER SERVICES
1. Arabian Sea Enterprises Limited
2. DHL Global Forwarding Pakistan (Private) Limited
3. DuPont Pakistan Operations (Private) Limited
4. ITOCHU Corporation Karachi Office
5. Kodak Limited
6. Marubeni Corporation
7. Mitsubishi Corporation
8. Mitsui & Company Limited
9. SGS Pakistan (Private) Limited
10. SICPA Inks Pakistan (Private) Limited
11. Stork Prints Pakistan (Private) Limited
12. Sumitomo Corporation Asia

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