Investment in Pakistan is a publication prepared by KPMG Pakistan to provide information on a number of subjects relevant for investment planning or doing business in Pakistan.

The guide includes an overview of the economy and a summary of various investment opportunities in identified sectors which could be of interest for investors and provides a summary of the rules, regulations and tax laws applicable in Pakistan. Although covering many relevant areas, it should not be considered as exhaustive since it has not been designed to provide complex and detailed information required for decision-making in relation to investments.

This publication incorporates the regulations effective as of 31 August 2017.

For our latest publications please browse our web site; www.kpmg.com.pk
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOI</td>
<td>Board of Investment</td>
</tr>
<tr>
<td>CY</td>
<td>Calendar Year</td>
</tr>
<tr>
<td>FCY</td>
<td>Foreign Currency</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year Ended</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoP</td>
<td>Government of Pakistan</td>
</tr>
<tr>
<td>PSDP</td>
<td>Public Sector Development Programme</td>
</tr>
<tr>
<td>PSX</td>
<td>Pakistan Stock Exchange</td>
</tr>
<tr>
<td>PTA</td>
<td>Pakistan Telecommunication Authority</td>
</tr>
<tr>
<td>SBP</td>
<td>State Bank of Pakistan</td>
</tr>
<tr>
<td>SECP</td>
<td>Securities &amp; Exchange Commission of Pakistan</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
</tbody>
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Overview of the Economy

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Sector Profiles

Mergers & Acquisitions

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Taxation

Forms of Business Presence

Labour Laws

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Pakistan is strategically located at the crossroads of Asia, with China (523 km) as its neighbour in the North, India (2,912 km) in the East and Iran (909 km) and Afghanistan (2,430 km) in the West.

Geographic details

Pakistan comprises of four provinces; Sindh in the South East; Punjab in the North East; Baluchistan in the West, Khyber Pakhtunkhwa (KPK) in the North West of Pakistan.

Gilgit, Baltistan and Federally Administered Tribal Areas (FATA) are semi-autonomous tribal region and Azad Jammu & Kashmir (AJK) is a self-governing administrative division of Pakistan.

Demographic Details

Population density
245 per square km

6th Largest population
207.8 million Approximately

106.4 million
101.3 million

Household
32.2 million

Coordinates - Population

Punjab
205,345 sq km
110 million

Sindh
140,914 sq km
47.9 million

KPK
74,521 sq km
30.5 million

Baluchistan
347,190 sq km
12.3 million

FATA
27,220 sq km
5 million

Islamabad
906 sq km
2 million

Source: Pakistan Economic Survey 2016-17
www.tradingeconomics.com
www.pbs.gov.pk
Country snapshot

Official name
Islamic Republic of Pakistan

Major exports
Cotton, textile goods, rice and leather, carpets and sports goods

Population
207.8 million (approx.)

Major imports
Industrial equipment, chemicals, vehicles, steel iron ore, petroleum, electrical good and edible oil

Religion
Islam 95%
Others 5%

Major crops
Cotton, wheat, rice, maize and sugarcane

Literacy rate
58% (approx.)

Natural resources
Land, natural gas reserves, petroleum, coal, iron ore, salt, limestone, gold and marble

Climate
Sub-tropical

Key industries
Textiles, cement, fertilizer, steel, electric goods, ship building, mining and IT

Currency: Rupee
PKR 103.8: USD 1
On 30 June 2017

National animal
Markhor

Source: Pakistan Economic Survey 2016-17
www.tourism.gov.pk
www.oanda.com

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Federal Government

The structure of federal government is based on three main pillars i.e. Executive, Legislative and Judiciary branch.

Executive branch

Constitution of the Islamic Republic of Pakistan, 1973 provides for a federal parliamentary system with a ‘President’ as head of state and a popularly elected ‘Prime Minister’ as head of government.

Prime Minister (PM) is assisted by his Federal Cabinet Ministers heading various ministries, divisions and by his Advisors.

Federal Cabinet consists of PM Secretariat, Cabinet Division and Establishment Division.

Ministries and Divisions comprise of various autonomous and semi-autonomous bodies.

Other offices and bodies having important roles in the federal structure include the Attorney General, the Auditor General, the Federal Land Commission, the Federal Public Service Commission, Election Commission of Pakistan, and the Wafaqi Mohtasib (Ombudsman) and the various Regulatory Authorities.

Legislative branch

Parliament consists of two Houses. The Senate (Upper House) and the National Assembly (Lower House).

The Senate is a permanent legislative body and symbolizes a process of continuity in the National affairs. It consists of 100 members (22 each from KPK, Punjab, Sindh and Baluchistan, 8 from FATA and 4 from Federal Capital).

The National Assembly has a total membership of 342 elected through adult suffrage (272 general seats, 60 women seats and 10 non-muslim seats).

Judiciary branch

The Supreme Court of Pakistan is the apex court in the judicial hierarchy of Pakistan, followed by High Courts of each of four provinces, Federal Shariat Court and Subordinate Judiciary.
Pakistan’s economy is closely linked to the rest of the world due to its strategic geographical position and high external sector exposure via the resource potential.

The framework for economic growth approved by the GoP in 2010-11 identified a coherent approach to growth that targets public service delivery, productivity, competitive markets, innovation and entrepreneurship. The strategy was based on sustained reform that builds an efficient and knowledgeable governance structure, and markets in attractive and well-connected location.

### Pakistan key economic indicators 2016-17

- **GDP:** PKR 31,862 billion approx.
- **GDP per capita:** USD 1,629
- **Industrial production index, YOY average:** 7.3%
- **Foreign direct investment:** USD 1.7 billion
- **Stock market reached all-time high at 50,000 plus points in January 2017**

Source: Pakistan Economic Survey 2016-17
www.sbp.org.pk

The improvements in key economic indicators are mainly contributed by a continual dip in oil prices globally, successful implementation of the China-Pakistan Economic Corridor (CPEC), significant curb down in terrorism related incidents by firm army actions against terrorists and uplift in overall business environment which led to enhancement in confidence of local and foreign investors, rise in investment in green and brown field projects; increase in mergers, acquisitions and joint ventures activities. This growth trajectory is expected to continue in future as well.

### GDP

Pakistan’s economy during last 4 years has witnessed higher and inclusive economic growth accompanied by significant recovery in commodity producing and services sectors. Since 2013-14, the economy has witnessed an upward trend in growth rate. Real GDP was above 4% in 2013-14, and has smoothly increased during the last four years to reach 5.28% in 2016-17, which is the highest during the last 10 years.

## Main sources of revenue

<table>
<thead>
<tr>
<th>Main sources of revenue</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax</td>
<td>28.2</td>
</tr>
<tr>
<td>Direct taxes</td>
<td>24.7</td>
</tr>
<tr>
<td>Taxes on international trade</td>
<td>8.0</td>
</tr>
<tr>
<td>SBP profit</td>
<td>7.4</td>
</tr>
<tr>
<td>Excise duty</td>
<td>4.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main sources of expenditure</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt service</td>
<td>38.6</td>
</tr>
<tr>
<td>Defence</td>
<td>21.1</td>
</tr>
<tr>
<td>Development</td>
<td>16.2</td>
</tr>
<tr>
<td>Grants</td>
<td>9.1</td>
</tr>
<tr>
<td>Pensions and superannuation</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: BMI Country Risk Report, Q3 2017
Foreign reserves

Pakistan’s foreign exchange reserves have kept on rising since 2013-14 and reached to USD 21.4 billion at the end of June 2017 from USD 11 billion at the end of June 2013. Workers remittance are the largest source of foreign exchange earnings after exports.

Foreign exchange reserve 2013-17

![Bar chart showing foreign exchange reserves from 2013-17 with values 11.0, 14.1, 18.7, 23.1, 21.4 for 30-Jun-13, 30-Jun-14, 30-Jun-15, 30-Jun-16, 30-Jun-17 respectively.]

Source: www.sbp.org.pk

Exports and Imports 2013-17

Exports during May 2017 amounting to USD 19.80 billion declined slightly from USD 22 billion in 2016. The positive contributors to exports for the current period are textiles representing 56.00%, rice 8.40% and other items 35.60%. Imports, increased by 5% to USD 42.50 billion in May 2017 as against USD 40.50 billion in 2016.

Major Exports and Imports Countries

<table>
<thead>
<tr>
<th>Major Export and Import Countries</th>
<th>Export Destinations</th>
<th>% of total</th>
<th>Import Sources</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>16.4</td>
<td>UAE</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>9.6</td>
<td>China</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td>Afghanistan</td>
<td>7.0</td>
<td>Singapore</td>
<td>9.8</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>6.8</td>
<td>Saudi Arabia</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>5.4</td>
<td>Kuwait</td>
<td>5.4</td>
<td></td>
</tr>
</tbody>
</table>

Source: BMI Country Risk Report, Q3 2017

Major Exports and Imports Products

<table>
<thead>
<tr>
<th>Major Export and Import Products</th>
<th>Export Products</th>
<th>% of total</th>
<th>Import Products</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>56.0</td>
<td>Petroleum and products</td>
<td>28.2</td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>8.4</td>
<td>Machinery</td>
<td>13.8</td>
<td></td>
</tr>
<tr>
<td>Chemical and Pharmaceuticals</td>
<td>5.1</td>
<td>Metals</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>3.6</td>
<td>Textiles</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Sporting Goods</td>
<td>2.4</td>
<td>Transport Equipment</td>
<td>4.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: BMI Country Risk Report, Q3 2017
Investment in Pakistan

Foreign direct investment inflows

Foreign Direct Investment (FDI) has emerged as a major source of private external flows for developing countries around the globe including Pakistan. FDI plays an important role vis-à-vis technology development, assisting human capital formation, contribution to international trade integration, helping in creating a more competitive business environment and promoting enterprise development.

Pakistan has one of the most liberal foreign investment regimes in South Asia. 100% foreign equity is permitted in almost all the sectors as the country has a more market-oriented economy, with a rapidly growing private sector.

Sector wise FDI Inflows during 2016-17

- Power: 41%
- Construction: 33%
- Oil & Gas: 19%
- Others: 7%

Total foreign direct investment inflows during 2016-17 stood at USD 2.4 billion compared to USD 2.3 billion during 2015-16 showing a 4.35% increase.

<table>
<thead>
<tr>
<th>USD million</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>319.1</td>
<td>1,063.6</td>
<td>1,185.6</td>
</tr>
<tr>
<td>USA</td>
<td>223.9</td>
<td>13.2</td>
<td>71.1</td>
</tr>
<tr>
<td>UK</td>
<td>169.6</td>
<td>151.6</td>
<td>68.9</td>
</tr>
<tr>
<td>U.A.E</td>
<td>213.6</td>
<td>109.7</td>
<td>55.8</td>
</tr>
<tr>
<td>Japan</td>
<td>71.1</td>
<td>35.4</td>
<td>45.2</td>
</tr>
<tr>
<td>Hon Kong</td>
<td>136.2</td>
<td>93.3</td>
<td>25.0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>(6.5)</td>
<td>58.0</td>
<td>16.9</td>
</tr>
<tr>
<td>South Korea</td>
<td>14.3</td>
<td>4.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>(64.8)</td>
<td>24.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Germany</td>
<td>(18.2)</td>
<td>(10.6)</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Others</td>
<td>(70.4)</td>
<td>763.1</td>
<td>937.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>987.9</strong></td>
<td><strong>2,305.3</strong></td>
<td><strong>2,410.9</strong></td>
</tr>
</tbody>
</table>

Source: Board of Investment

Power, oil and gas exploration, financial business, communications, beverages, chemicals, personal services, electronics, construction, petroleum refining and transport remained the main recipient sectors of FDI.

Total FDI Inflows 2013-2017

Source: Board of Investment

Workforce

Pakistan has the 8th largest labor force in the world. According to labor force survey 2014-15, the total labor force in the country was approximately 61.04 million; out of which 57.42 million people were employed.

The working population is approximately 135 million; 68% of total population. Young population is considered as the wealth of the nation in terms of human resource.

Sector wise employment share

Source: Pakistan Economic Survey 2015-16
Key economic developments

China Pakistan Economic Corridor (CPEC)

China’s One Belt One Road (OBOR) initiative has obvious commercial benefits not only for itself but also for Southeast Asia. OBOR focuses on connectivity and cooperation among countries - primarily between China and the rest of Eurasia - consisting of two main components: the land-based "Silk Road Economic Belt" and the 21st century "Maritime Silk Road". This connectivity will create new inroads into several ASEAN nations.

The “One Belt, One Road” initiative envisages a path by land from China through Central Asia to Europe, with the maritime route flowing through Southeast Asia, the Indian Ocean, the Middle East, and Africa to Southern Europe. By building essential infrastructure and boosting financial and trade links, the belt and road aims to enhance commerce and spread prosperity across 60 plus countries with a combined population well in excess of 4 billion.

CPEC is a part of OBOR, estimated at a cost of over USD 50 billion, which aims at establishing an economic corridor in Pakistan, connecting Gwadar Port in Southwestern Pakistan to China’s far western region of Xinjiang. The project encompasses infrastructure projects involving highways, railways and pipelines along with several energy projects, and includes establishment of special economic zones. Moody’s Investors Service has described the project as a “credit positive” for Pakistan.

The CPEC has a potential to revolutionize the regional cooperation in the fields of socio-economic development, trade, shipping, road and railway transportation, communications, industry and banking. It would also encourage tourism in the region.

Main components of the corridor includes development of Gwadar (including port and city and Gwadar region’s socio-economic development), Energy (Coal, Hydel, Wind, Solar, LNG, Transmission), Transport Infrastructure (Road, Rail, Aviation), Investment & Industrial Cooperation (Gwadar Free Zone and special economic zones) and other projects of mutual interest.

Number of projects along with estimated cost

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Projects</th>
<th>Estimated Cost USD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>17</td>
<td>26,283</td>
</tr>
<tr>
<td>Transport Infrastruct</td>
<td>8</td>
<td>13,358</td>
</tr>
<tr>
<td>Gwadar</td>
<td>8</td>
<td>793</td>
</tr>
</tbody>
</table>

Source: www.cpec.gov.pk

It is expected that the investment on the corridor will transform Pakistan into a regional economic hub. The corridor will boost confidence for investors and attract investment not only from China but other parts of the world as well. The importance of CPEC to China is reflected by its inclusion as part of China’s 13th five-year development plan.

Benefits of CPEC to Pakistan are primarily of three kinds:

1. Direct; measured by incremental contribution to gross value added in energy and infrastructure.

2. Indirect; measured by the multiplier effect of activities resulting from the direct demand of goods and services.

3. Induced effects or externalities: e.g., bringing in roads and electricity may make economic activities feasible and reduce outmigration of skilled labor from those areas.

CPEC will provide China with an alternate route for energy supplies, as well as a new route by which Western China can conduct trade. Pakistan stands to gain, among other things, much needed infrastructure and introduction of a reliable energy supply.
Key highlights of CPEC

- CPEC offers an opportunity to provide China and Pakistan with greater access to markets in Middle East, Central Asia, Europe and beyond, and providing cheaper trade route alternatives. Oil from the Middle East could be offloaded at Gwadar and transported to China through the corridor, cutting short the earlier adopted trade route.

- When fully operational, Gwadar will promote the economic development of Pakistan and become a gateway for Central Asian countries, including Afghanistan, Uzbekistan, linking Sri Lanka, Iran and Xinjiang to undertake marine transport.

- Gwadar port holds great strategic and economic significance for Pakistan. Located at cross junction of international sea shipping and oil trade routes, Gwadar can act as an international trade hub for Pakistan as it would connect Central Asia, South Asia and Middle East. Healthy progress is being made since the port was handed over to China Overseas Holding Company in 2013. Along with Gwadar port, the building up of Gwadar city, Gwadar power generation plants and International airport are important projects to fully reap the benefits of CPEC.

- Over USD 26 billion worth of energy infrastructure will be constructed by private consortia to help alleviate Pakistan’s chronic energy shortages. A combined energy of 13,530 MW is expected to be derived out of the total energy projects to be implemented under CPEC.

- An extensive road infrastructure will be constructed in the form of 1,100 km motorway between cities of Karachi and Lahore.

- Karakoram Highway between Rawalpindi and Chinese Border will be completely reconstructed and overhauled.

- A network of pipelines to transport liquefied natural gas and oil will also be laid as part of the project, including a pipeline between Gwadar and Nawabshah to transport gas from Iran.

- Pakistani officials predict that CPEC will result in the creation of upwards of 700,000 jobs during 2015 to 2030, and add 2% to 2.50% points to the country’s annual economic growth.

- Tourism which currently makes up an insubstantial part of our earnings is believed to be elevated by opening of this economic corridor.

- CPEC has the potential to revive Diamer-Bhasha dam on Indus River in Gilgit-Baltistan, in its second phase, resulting in the production of 4,500 MW of electricity in addition to serving as a huge water reservoir for the country.

- In agriculture, the cooperation between the countries would be extended in all areas from provisions of seeds, fertilizers and pesticides to establishing processing facilities for vegetables and fruits, cold chain logistics, livestock breeding, irrigation equipment and planting and harvesting machinery. Plan also includes establishing meat processing plant, vegetable processing plant, grain processing plant, fertilizer plant and cotton processing plant. Establishing three level warehousing system is also included in the plan.

- Fibre-optic connectivity between China and Pakistan is also in consideration in CPEC. Plan envisages a terrestrial cable across the Khunjerab Pass to Islamabad and submarine lading station in Gwadar, linked to Sukkur. This will enable broadcasting of digital HD television with expended bandwidth called Digital Television Terrestrial Multimedia Broadcasting.

Opportunities for local businesses

- At present many Pakistani businessmen are contemplating joint ventures with Chinese companies.

- Pakistani business houses are also interested in setting up projects for producing materials required in construction.

- Opportunities also exist for Pakistani companies in the logistics sector.
Special Economic Zones in Pakistan

The purpose of Special Economic Zones (SEZs) is to enhance country’s productive capacity, expand exports base and provide an impetus for economic and social development through their linkages with the rest of the domestic economy. Until now Pakistan has not explored the option of SEZs for attracting FDI and for promotion of industrialization and economic growth. Currently, Pakistan has 7 area of notified SEZs:

<table>
<thead>
<tr>
<th>SEZ</th>
<th>Province</th>
<th>Area in acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bin Qasim Industrial Park</td>
<td>Sindh</td>
<td>930</td>
</tr>
<tr>
<td>Korangi Creek Industrial Park</td>
<td>Sindh</td>
<td>240</td>
</tr>
<tr>
<td>Khairpur SEZ</td>
<td>Sindh</td>
<td>136</td>
</tr>
<tr>
<td>M3 Industrial City</td>
<td>Punjab</td>
<td>4,356</td>
</tr>
<tr>
<td>Quaid-e-Azam Apparel Park</td>
<td>Punjab</td>
<td>1,536</td>
</tr>
<tr>
<td>Value Added City</td>
<td>Punjab</td>
<td>225</td>
</tr>
<tr>
<td>Hattar SEZ</td>
<td>KPK</td>
<td>424</td>
</tr>
</tbody>
</table>

The SEZ Act was promulgated on 13 September 2012 and later SEZ Rules were notified. The law provides SEZs to be set up by the Federal or Provincial Governments themselves or in collaboration with the private sector under different modes of public-private partnership or exclusively through the private sector.

The provincial SEZ authorities, set up under the law, are required to move the applications received from developers to the Federal Board of Investment which is to act as the secretariat to the Board of Approvals and the Approval committee.

The Provincial Governments have received many applications for various potential zones in their respective provinces and are in the process of preparing documents to further process the applications. They are also engaged with potential local and foreign investors to finalize arrangements for infrastructure development of the areas identified for Zones.

Special Economic Zones under CPEC

Federal government has planned to establish about 37 SEZs across the country under China-Pakistan Economic Corridor in order to promote business activities and attract investment in different sectors of the country. The SEZs will be located in different parts of all provinces which will be identified by the provincial governments. Following 9 SEZs have been identified to be initiated on priority:

- Rashakai Economic Zone on M-1
- Special Economic Zone Dhabeji, Thatta
- Bostan Industrial Zone
- Punjab - China Economic Zone, M-2 District Sheikhupura
- ICT Model Industrial Zone, Islamabad
- Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi
- Bhimber Industrial Zone
- Mohmand Marble City
- Moqpondass SEZ Gilgit-Baltistan

There exist an immense potential and prospects for investors in the country which has a growing middle class with increasing needs of different products.
PAKISTAN VISION 2025

The Vision 2025 is considered to be foundation for change and transformation that aims at creating new opportunities. Pakistan’s immense potential, are the reasons for the optimism that the country can emerge as an economic power if there is an efficient use of resources. Vision 2025 is people centered and consider human resource as an asset for growth and development. Pakistan’s 110 million people below the age of 30 are great opportunity for growth. The leading priority is to tap the latent energies and potential skills of youth, in making them effective managers of change for tomorrow. Vision 2025 builds on the sustained efforts made by the Government to regain macroeconomic stability and implement wide-ranging reforms.

Vision 2025 based on seven pillars, namely, ‘developing human and social capital’, ‘achieving sustained, indigenous and inclusive growth’, ‘governance, institutional reform and modernization of the public sector’, ‘energy, water and food security’, ‘private sector led growth and entrepreneurship’, ‘developing a competitive knowledge economy through value addition’, and ‘modernization of transportation infrastructure and greater regional connectivity’.

Pillar - I: Putting People First: Developing Human and Social Capital

Key goals under this pillar are:

- Increase annual FDI from USD 600 million to over USD 15 billion.
- Increase tax to GDP ratio from 9.80% to 18%.

Pillar - II: Achieving Sustained, Indigenous and Inclusive Growth

Key goals under this pillar are:

- Place in the top 50th percentile for Political Stability (bottom 1 percentile), No Violence/Terrorism (bottom 1 percentile), and Control of Corruption (bottom 13th percentile) as measured by the World Bank’s Worldwide Governance Indicators.

Pillar - III: Governance, Institutional Reform and Modernization of the Public Sector

Key goals under this pillar are:

- Increase annual FDI from USD 600 million to over USD 15 billion.
- Increase tax to GDP ratio from 9.80% to 18%.

Pillar - IV: Energy, Water and Food Security

Key goals under this pillar are:

- Increase annual FDI from USD 600 million to over USD 15 billion.
- Increase tax to GDP ratio from 9.80% to 18%.

Pillar - V: Private Sector-Led Growth and Entrepreneurship

Key goals under this pillar are:

- Increase annual FDI from USD 600 million to over USD 15 billion.
- Increase tax to GDP ratio from 9.80% to 18%.

Pillar - VI: Developing a Competitive Knowledge Economy through Value Addition

Key goals under this pillar are:

- Increase annual FDI from USD 600 million to over USD 15 billion.
- Increase tax to GDP ratio from 9.80% to 18%.
Pillar - VII: Modernization of Transportation Infrastructure and Greater Regional Connectivity

Key goals under this pillar are:

- Make Pakistan hub of regional trade and commerce
- Increase annual exports from USD 25 billion to USD 150 billion.
- Increase road density from 32 Km / 100 Km² to 64 km / 100 Km², and share of rail from 4% to 20% of freight handling in the country.

In order to realize Vision 2025 effectively, well defined coordination mechanism among federating units including provinces, and special areas such as FATA and AJK is needed. The federation will be strengthened by promoting inter-provincial and federal-provincial communication and co-ordination so that national and provincial priorities are aligned, and the federal and provincial governments work together to reach common goals.

Useful web links

- Ministry of Finance
  www.finance.gov.pk
- Ministry of Planning Development and Reform
  www.pc.gov.pk
- State Bank of Pakistan
  www.sbp.org.pk
- Board of Investment
  www.boi.gov.pk
This chapter aims at identifying key business sectors in Pakistan, considering their investment determinants in the light of current market as well as the opportunities they hold.

Agriculture constitutes the largest sector of our economy. Majority of the population, directly or indirectly, depends on this sector. It contributed about 19.50% to GDP, employing 42.30% of the total labour force in 2016-17. Agriculture is also the largest source of foreign exchange earnings.

The industrial sector witnessed growth of 5.02% in 2016-17 as compared to the previous year.

Services sector has played a vital role in sustaining economic activities in Pakistan. Services sector contains six sub-sectors: Transport, Storage and Communication, Wholesale and Retail Trade, Finance and Insurance, Housing Services, General Government Services and Other Private Services.

The share of the services sector has increased from 58.20% of GDP in 2012-13 to 59.60% in 2016-17. During recent times, there is a rising trend of youth entrepreneurship in Pakistan, which has great potential to cause a paradigm shift in the economy.

Pakistan’s economy during the last three years has witnessed higher and inclusive economic growth accompanied by significant recovery in commodity producing and services sectors.

Sector-wise GDP contribution, 2013-2017

![Sector-wise GDP contribution, 2013-2017](chart)

Source: Pakistan Economic Survey 2016-17
Pakistan’s total land under cultivation is watered by one of the largest irrigation systems in the world, covering around 27.76% of Pakistan’s total land area.

- Pakistan is the 4th largest cotton producing country in the world, 5th largest in sugarcane and 4th largest in milk.
- Pakistan produces some of the world’s best fruit varieties that are exported to over 40 countries and is ranked among the top 5 mango producing countries in the world.

### Agriculture Production 2016-17

<table>
<thead>
<tr>
<th>Crop</th>
<th>Million tonnes/Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugarcane</td>
<td>73.6</td>
</tr>
<tr>
<td>Milk</td>
<td>56.1</td>
</tr>
<tr>
<td>Wheat</td>
<td>25.8</td>
</tr>
<tr>
<td>Cotton</td>
<td>10.7</td>
</tr>
<tr>
<td>Rice</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17

### Cropped land - in million hectares 2016-17

- Wheat: 2.0
- Cotton: 1.3
- Rice: 1.2
- Maize: 2.7
- Sugarcane: 2.5
- Others: 9.1

Source: Pakistan Economic Survey 2016-17

### Fishery

- Fisheries, as a sub-sector, play a significant role in the national economy and towards the food security of the country, as it relaxes the existing pressure on mutton, beef and poultry demand.
- During 2016-17 the total exports of fishery products were 103.30 billion tonnes.

### Forestry

- During the year 2015-16, the share of forestry subsector in agriculture was 2.33%, having main components of forestry, timber and firewood.

### Livestock and Poultry

- Livestock’s share in agriculture is much more than the combined share of all other subsectors of agriculture, accounting for 58.33% of agricultural value addition. The gross value addition of livestock sector increased from PKR 1,288 billion in 2015-16 to PKR 1,333 billion in 2016-17, showing an increase of 3.40% over the same period last year.
- Pakistan earned USD 252.40 million from leather tanned exports and USD 163.20 million from meat exports in 2016-17.
Industry Snapshot

The Opportunity

A mega relief package of PKR 341 billion has been announced by GoP for small farmers including direct cash support and provision of soft agriculture loans. It is aimed at introducing progressive agriculture on scientific lines, reducing production cost of crops and making the small farmers prosperous. Under the package:

1. Small farmers would get the chunk of PKR 147 billion as direct benefit while PKR 194 billion has been allocated for agriculture loans.

2. The farmers cultivating rice and cotton at up to 12.50 acres of land would be given cash support of PKR 5,000 per acre. The government on this facility will bear the cost of PKR 20 billion each for rice and cotton crops.

3. A fund of PKR 20 billion would be setup to reduce prices of fertilizers.

4. To provide Liquefied Natural Gas (LNG) to fertilizer companies to overcome the shortages of gas supply.

5. The government would bear the PKR 2.50 billion premium on the agricultural insurance which will benefit 0.70 million small farmers.

6. Solar tube wells would be provided on mark-up free loans to the farmers who own up to 12.50 acres of land. The mark up of seven years would be paid by the federal government with a cost of PKR 14.50 billion. This would ensure a saving of PKR 1,600 and PKR 500 per day for the farmers running tube wells on diesel for 5 hours daily and on petrol for same duration, respectively.

7. The electricity price for running tube wells at peak hours has been fixed at PKR 10.35 per unit and PKR 8.85 at off-peak hours. The sales tax on these bills amounting to PKR 7 billion would be borne by the federal government.

8. The custom duty, sales tax and withholding tax on the agriculture machinery has been reduced.

9. The traders of the agriculture commodities, fruits, vegetables and fish would get an exemption on income tax while the sales tax on cold chain machinery has been reduced.

10. The Government would provide PKR 30 billion as the 50% guarantee to banks on loans. This will benefit around 0.30 million farmer households through PKR 0.10 million each with collateral loans.

11. The Zarai Taraqiati Bank Limited and commercial banks would provide one-window facility to the farmers seeking loans.

12. The value of production unit has been increased from PKR 2,000 to PKR 4,000 which would help farmers get doubled the amount of loan against their land value.

13. A committee under supervision of Federal Minister for National Food Security and Research has been set up which would work out the ways to increase per acre yield and reduction of agriculture inputs.

Useful web link

Pakistani Agricultural Research Council
www.parc.gov.pk

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Investment in Pakistan

Sector overview

The sector comprises of 12 companies with the total market capitalization being PKR 490.70 billion during 2016-17. The profit after tax of this sector was PKR 26.90 billion. This sector continued to perform outstandingly on the back of the surge in auto sales due to low interest rates, Punjab Government taxi scheme and other economic factors.

The automobile sector recorded a growth of 11.31% during July 2016 - March 2017 compared to 23.51% in the same period last year.

The car manufacturing industry in Pakistan is dominated by Japanese manufacturers which include Pak Suzuki Motors Company, Indus Motors (Toyota), Honda Atlas and Ghandhara Nissan.

Toyota Corolla led the car market in Pakistan with 45,447 units sold during July – April 2016-17, followed by Suzuki Mehran with 31,867 units sold during the same period.

Sales and Production of cars: July 2016 - April 2017

<table>
<thead>
<tr>
<th>Model</th>
<th>Units Sold</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suzuki Swift</td>
<td>4,320</td>
<td>13%</td>
</tr>
<tr>
<td>Suzuki Wagon R</td>
<td>3,210</td>
<td>10%</td>
</tr>
<tr>
<td>Suzuki Cultus</td>
<td>2,820</td>
<td>9%</td>
</tr>
<tr>
<td>Suzuki Bolan</td>
<td>2,230</td>
<td>7%</td>
</tr>
<tr>
<td>Honda Civic &amp; City</td>
<td>2,100</td>
<td>7%</td>
</tr>
<tr>
<td>Suzuki Mehran</td>
<td>1,800</td>
<td>6%</td>
</tr>
<tr>
<td>Toyota Corolla</td>
<td>1,600</td>
<td>5%</td>
</tr>
</tbody>
</table>

The market players for buses and trucks include Hino-Pak Motors, Isuzu, Master, etc.

During July 2016 – April 2017, Hino led the market for both trucks and buses with 2,448 and 602 units of trucks and buses being sold respectively.

The market participants for 2 / 3 wheelers comprise mainly of Honda, United Autos Motorcycle and Road Prince Motorcycle.

Honda was the market leader for 2 / 3 wheelers during July 2016 – April 2017 having sold 795,580 units.

The main players in the Farm Tractor market include Millat (Massey Ferguson), Fiat (New Holland) and Orient IMT Tractor.

Millat led the market with 28,193 units sold during July 2016 – April 2017.

<table>
<thead>
<tr>
<th>Tractor</th>
<th>Units Sold</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massey Ferguson Tractor</td>
<td>28,193</td>
<td>63%</td>
</tr>
<tr>
<td>Fiat Tractor</td>
<td>16,106</td>
<td>36%</td>
</tr>
<tr>
<td>Orient IMT Tractor</td>
<td>584</td>
<td>1%</td>
</tr>
<tr>
<td>Truck</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hino Truck</td>
<td>2,448</td>
<td>40%</td>
</tr>
<tr>
<td>Isuzu Truck</td>
<td>2,044</td>
<td>34%</td>
</tr>
<tr>
<td>Other Trucks</td>
<td>1,557</td>
<td>26%</td>
</tr>
<tr>
<td>Bus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hino Bus</td>
<td>631</td>
<td>66%</td>
</tr>
<tr>
<td>Isuzu Bus</td>
<td>197</td>
<td>21%</td>
</tr>
<tr>
<td>Master Bus</td>
<td>126</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Pakistan Automobile Manufacturers Association
Automotive Development Policy 2016 - 2021

The Government decided in October 2013 to set up a Committee to formulate an Automotive Development Policy (ADP) that could provide a solid framework to strengthen the sector further, laying down a comprehensive, well-defined roadmap that aims essentially to protect the interests of the consumers and raise the safety, quality and environmental standards to meet the challenges of the highly competitive export market.

The policy has been finalised after intensive consultation with all stakeholders: the auto industry, auto part manufacturers, consumers, and relevant government organisations.

Lower the entry threshold for new investment:

ADP adopts following two categories of new investment for a period of 5 years with different incentives:

Category - A: Greenfield Investment:

The installation of a new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled, manufactured in Pakistan.

Category - B: Brownfield Investment:

Revival of an existing assembly and/or manufacturing facilities, that is non-operational or closed on or before 1 July 2013 and the make is not in production in Pakistan since that date and that the revival is undertaken either independently by original owners or new investors or under joint venture agreement with foreign principal or by foreign principal independently through purchase of plant.

Create enabling tariff structure for development of the Automotive Sector:

The CBU duty rates have been rationalized up 1,800cc and below cars.

The import duty rates on localized and non-localized parts are being lowered to improve indigenous competitiveness.

The duty structure pertaining to concessionary inputs available to auto part manufacturers, is being rationalized to eliminate mis-declaration among components and sub components.

Zero tariff slab has been replaced with 1% in line with the overall government policy.

Rationalize automobile import policy:

Age limit of three years to be continued in case of cars

Age limit of five years to be continued in case of buses, vans, trucks, pickups, SUVs including 4x4 vehicles

Special Purpose Vehicles of specified HS Codes not older than five years shall be allowed to the end users as specified in the import policy order.

Provide regulatory and enforcement mechanisms for Quality, Safety and Environmental Standards:

Pakistan is to take the membership of WP. 29 initially as an observer and subsequently initiate and pursue actions aimed at development of regulations based on United Nation Regulations with eventual goal of becoming the Party to the International Whole Vehicle Type Approval.


Establishment of Pakistan Automotive Institute:

The ADP adopts establishment of Pakistan Automotive Institute (PAI) for planning and implementation of activities relating to the development of the automobile industry, particularly research, education and technical guidance relating to quality improvement, safety inspection and environmental preservation as well as development of a database covering technical information relating to the automobile industry.

Merger of the newly-created PAI with Automotive Testing and Training Centre.
Investment in Pakistan

Industry Snapshot

<table>
<thead>
<tr>
<th>Market size</th>
<th>Production capacity of 285,500 units in 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading Market players</td>
<td>Honda Atlas, Hinopak, Indus Motors, Mitsubishi, Pak Suzuki.</td>
</tr>
<tr>
<td>Market</td>
<td>Pakistan’s car market is fairly concentrated. Just eight models, made by three Japanese firms, Honda, Suzuki and Toyota, account for virtually all car sales in the country.</td>
</tr>
</tbody>
</table>

Source: Automotive Development Policy 2016-21

Vehicle production July 2016 - April 2017

- Cars
- Pick ups
- Jeeps
- Buses
- Trucks
- Tractor
- Two/Three Wheelers

1,350,898
159,178
20,559
1,672
961
6,235
44,303

Source: Pakistan Automobile Manufacturers Association

The Opportunity

As per the Automotive Development Policy 2016-2021, following incentives are being proposed for the different categories of investors:

Category - An Investor shall be entitled to the following incentives:

- Duty-free import of plant and machinery for setting up the assembly and/or manufacturing facility on a one-time basis.
- Concessional rate of custom duty on non-localised parts and on localised parts for a period of 5 years for the manufacturing of cars and LCVs.
- Import of all parts (both localised and non-localised) at prevailing customs duty applicable to non-localised parts for manufacturing of trucks, buses and prime movers for a period of 3 years.
- Vehicle loans will continue to make up a significant proportion of consumer lending, and will thus play a significant role in the expansion of car ownership in Pakistan. Nearly one half of new car sales in the country are financed by leasing companies or bank loans.
- The motorcycle sector has progressed tremendously over the years due to consistent policy of the government, while it gave protection to local investors to expand the businesses locally as well as globally.
- Pakistan is only a minor emitter of CO2 compared to global norms, by being responsible for less than 1% of the world’s greenhouse gas emissions; and expectations are for Pakistan to remain well down the list of countries in terms of CO2 emissions.
- Registered cars in Pakistan is 18 people per 1000, however in a developed nation like USA it is 388 people per 1000, which shows the potential for growth in Pakistan as the economy flourishes.

Total registered passenger cars in use per 1,000 people in Pakistan, 2016-2020

Source: Economist Intelligence Unit

Useful web links

- Pakistan Automotive Manufacturers Association www.pama.org.pk
- Pakistan Bureau of Statistics www.pbs.gov.pk
- All Pakistan Motor Dealers Association www.customstoday.com.pk
- Minister for Industries and Production www.moip.gov.pk
Sector overview

- Housing and Construction Sector is among the identified sectors by the GoP which adds the fuel to economic growth. A spurt in activity in this sector unleashes a chain reaction in other allied industries.

- Pakistan was among the top 15 leading exporters of cement in the world during 2016.

- Construction sector has recorded a growth of 9.05% against the growth of 14.60% last year.

- The cement industry gained from vibrant construction activities on account of number of infrastructure and power related projects which were taken up during the recent past. The Public Sector Development Program spending increased from PKR 350 billion in FY2013 to PKR 700 billion in 2016.

- During the first ten months of fiscal year 2016-17 the cement industry dispatches improved to 33.88 million tonnes in local market posting a healthy growth of 6.21% compared with 26.90 million tonnes during the same period last year. The growth situation during the current fiscal year improved to 9.70% compared to 3.90% last year.

- In 2015, investment in residential property (apartments, houses and vacant plots) increased by 5% to 7%, while in commercial property (including standalone shops, showrooms, retail and office space), 15% to 20% across Pakistan, in spite of the levy of Capital Gains Tax, Capital Value Tax and Stamp Duties in the Federal Budget 2014-2015.

- The country imported USD 373.30 million of construction and mining machinery during July-March 2017, which is higher by 25.70% or USD 223.70 million compared to the same period in 2016.

The Opportunity

- CPEC is a 3,218 km long route consisting of highways, railways and pipelines. The actual estimated cost of the project is expected to be USD 75 billion, out of which USD 45 billion plus will ensure that the corridor becomes operational by 2020. The remaining investment will be spent on energy generation and infrastructure development.

- Pakistan’s population is fast approaching 200 million. The estimated housing blockage in Pakistan was 9-10 million units in 2014 with an average household size of 6.50 persons. Historically the housing sector did not grow at the same pace compared with exceptional increase in
Investment in Pakistan

population and rapid escalation in urbanization; which resulted in the huge backlog which still keeps on augmenting year on year basis.

Pakistan’s mortgage-to-GDP ratio is even than 1%, which is on much lower side as compared with that in neighbouring countries.

The inhibited growth in the sector is primarily attributed to demand side and supply side constraints; which give rise to immense opportunities for investment in housing and real estate sector.

Forecast GDP from Construction 2016 - 2020

Useful web links

1. Infrastructure Project Development Facility
   www.ipdf.gov.pk
2. Ministry of Planning, Development and Reform
   www.pc.gov.pk
**Sector overview**

- Social and economic development of a country is considered to have a strong association with education and a country needs to invest in human capital to achieve sustainable economic development.

- Pakistan is committed to promote education, increase literacy rate, capacity building of teachers, and enhancement of facilities in all educational institutes. National government is encouraging and facilitating private investors to invest in the education sector for its promotion as a national cause.

- Public expenditure on education as percentage to GDP stood at 2.30% in 2015-16 as compared to 2.20% of GDP in 2014-15. The education related expenditure in 2015-16 was recorded at PKR 663.36 billion compared to PKR 599.05 billion in 2014-15, depicting an increase of 10.74 percent.

- Currently education sector could broadly be categorized under Private and Public domains with approximately 30% of schools belonging to public sector. According to HIICS, 2015-16, the literacy rate of the population stood at 58%.

- Under Prime Minister Youth Skill Development Program (YSDP) Phase-I and II, around 45,000 people have been trained whereas Phase III targets to train 50,000 more people through public/private institutes across the country.

- HEC is also running different scholarship programmes to enhance academic qualification. Prime Minister's Fee reimbursement scheme was successfully executed and is to be continued in the coming years.

The overall educational situation, based on key indicators such as likely enrolments, number of institutes and number of teachers, has shown a slight improvement during 2015-16 as described below:

- Overall Number of enrolments increased to 46.22 million.
- Overall Number of institutes increased to 252.80 thousand.
- Overall Number of teachers increased to 1.63 million.

**National Vocational and Technical Training Commission** is establishing and promoting linkages at national as well as with international organizations such as Singapore and TESDA (Philippines). Collaboration is also being sought from China and Germany and collaboration plans have been submitted with Australia, KOICA and Jordan.

<table>
<thead>
<tr>
<th>Description</th>
<th>2014–15</th>
<th>2015 – 16</th>
<th>2016-17 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>165.9</td>
<td>164.6</td>
<td>167</td>
</tr>
<tr>
<td>Middle</td>
<td>44.8</td>
<td>45.7</td>
<td>46.7</td>
</tr>
<tr>
<td>High</td>
<td>31.3</td>
<td>31.7</td>
<td>32.1</td>
</tr>
<tr>
<td>Higher Secondary</td>
<td>5.4</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Degree Colleges</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Technical &amp; Vocational</td>
<td>3.6</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Universities</td>
<td>0.163</td>
<td>0.163</td>
<td>0.164</td>
</tr>
</tbody>
</table>

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Investment in Pakistan

Gross Enrolment Rate

The Opportunity

Considering Government’s plan for extensive investment in education, rapid increase in population and linking the demographic transition with economic development, there are ample opportunities in education sector including investment in human capital.

Following are few opportunities that persist in Pakistan’s education sector:

- Growth in overall population consisting of high proportion of young population.
- Widening supply and demand gap; due to higher growth rate of population as compared to addition of new schools.
- Decreasing enrolment at government schools.
- Lack of educated and trained capital due to unavailability of training and professional development centres and institutes.

Useful web links

- National Vocational &Technical Training Commission: www.navttc.org

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Investment in Pakistan

Sector overview

Electronics witnessed a sharp turnaround of 15.24% growth in 2016-17, compared to a contraction of 5.69% during last year. Refrigerators and deep freezers recorded a growth of 25.68% and 45.29% respectively, contributing to its improved performance.

According to Pakistan Bureau of Statistics, the production of other electrical equipment includes electric bulb that surged from 48.10 million in 2015-16 to 52.10 million in 2016-17.

Pakistan’s domestic audio / visual device market was worth USD 833 million in 2016 is expected to grow at a CAGR of about 5.20% to almost USD 1 billion in 2020.

There will be an increasing demand for built-in appliances, and rising disposable incomes in emerging countries will drive up the volume. As per the Euro monitor report, automatic washing machines, fridge freezers, air conditioners and microwaves will remain high growth areas.

Industry Snapshot

<table>
<thead>
<tr>
<th>Total Import</th>
<th>PKR 1,197.3 billion in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market players</td>
<td>Arcelik (Dawlance), Haier, LG, Mitsubishi, National, Orient, Panasonic, PEL, Philips, Samsung, Sony, Waves</td>
</tr>
</tbody>
</table>

The Opportunity

The home appliances business is thriving and key market players expect consumer demand to surge as increasing trend of replacement of old appliances with newer models coupled with increasing population and urbanization.

Pakistan home appliances industry has freight advantage over Chinese competitors in the Middle East and African markets. The existing export markets of Pakistani home appliance products are Afghanistan, UAE, Sri Lanka and Iraq. Potential also exists to expand further in Middle Eastern markets, and explore new markets in South Asia and Africa.

Smartphone adoption in Pakistan is expected to grow due to expanding 3G and 4G networks (currently 3G services are available in more than 200 cities and towns) and more affordable smartphones being available in the market.

Pakistan’s electric fan manufacturers could generate more revenues by focusing on neighbouring countries.

Recent acquisition of Dawlance Pakistan, one of the largest manufacturers of refrigerators and other home appliances, by Arcelik of Turkey has enhanced confidence of other local and foreign investors on this industry.

Useful web links

Pakistan Engineering Council
www.pec.org.pk

Ministry of Science and Technology
www.pcsir.gov.pk

Pakistan Bureau of Statistics
www.pbs.gov.pk
Investment in Pakistan

Sector overview

- The asset base of financial sector registered a growth of 11.93% and reached to PKR 15.80 trillion as at 31 December 2016 as compared to PKR 14.10 trillion as at 31 December 2015.

- Scheduled Banks, Development Finance Institutions and Microfinance Banks are regulated by the SBP whereas NBFCs, Insurance Companies and Modarabas are under the regulatory ambit of SECP.

Banks

- The commercial banking sector comprises of 21 listed banks with a listed capital of PKR 447,932 million and market capitalization of PKR 1,697,803 million on March 31, 2017. The total profit after-tax of this sector was recorded at PKR 177,276 million in 2016.

Banking Snapshot – 31 December, 2016

<table>
<thead>
<tr>
<th></th>
<th>PKR billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances</td>
<td>5,572</td>
</tr>
<tr>
<td>Deposits</td>
<td>11,203</td>
</tr>
<tr>
<td>Investment</td>
<td>7,233</td>
</tr>
</tbody>
</table>

Source: State Bank of Pakistan

- In December 2016, Islamic banking share as a percentage of overall banking industry stood at 13.30% in terms of deposits and 11.70% in terms of total assets compared to 7.20% and 6.70% respectively as of December 2010. Currently, there are 5 full-fledged Islamic banks and 16 conventional banks operating Islamic banking branches in Pakistan.

- According to Pakistan Islamic Finance 2016, total assets of Islamic finance industry amounted to PKR 2.19 trillion* (Aggregate figure of banking, insurance, NBFI, funds). Islamic banking is the biggest contributor in Islamic finance industry with an asset base of PKR 1.85 trillion in 2016. Between 2010 and 2015, the Islamic banking has witnessed a CAGR more than 30% both in terms of deposit and assets.

Composition of Islamic Financial Sector – December 2015

Non-Banking Financial Companies (NBFCs)

- The industry shows a positive growth in total assets which increased from PKR 638.83 billion in June 2014 to PKR 1,134.20 billion in February 2017.

- The NBFCs posted after tax-profit of PKR 8 billion. The asset size improved by 10.10% with PKR 738 billion in 2015.
**Insurance**

Pakistan’s insurance industry penetration has also witnessed upward trend at 0.88% in 2016 as compared to 0.84% in 2015. The asset size of total insurance industry as at 31 December, 2016 stands at PKR 1,159 billion comprising 80% of life insurance assets.

At present, there are 41 non-life insurers operating in the market, including 3 general takaful operators and one state-owned insurer.

There are nine life insurers, two family takaful operators and one state-owned corporation in the life insurance segment.

---

**Minimum Capital Requirements**

<table>
<thead>
<tr>
<th>Category</th>
<th>PKR in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurance / family takaful operator</td>
<td>700</td>
</tr>
<tr>
<td>Non life insurance / general takaful operators</td>
<td>500</td>
</tr>
</tbody>
</table>

*Source: SECP, Annual Report 2016*
Investment in Pakistan

Banking Snapshot

The Opportunity

- Pakistan’s economic future presents great opportunities for the banking sector and provides an ideal case for the Pakistani banks and financial services institutions to rise up to the challenge and ensure maximum outreach of its services to the currently unbanked, unreached and unknowing population.

- Existing outreach and penetration of financial services is low – 7 branches per 100,000 people and 0.22 branches per 1,000 km and 226 bank accounts per 1,000 adults. Given a population reaching 200 million.

- This provides massive opportunities to the banks and other non-banking financial institutions to ensure that their product lines cater to the low income population of Pakistan, which have otherwise largely remained disengaged from the financial services industry.

- Major improvement in the economic outlook strengthened by emergence of CPEC and improving security situation and political stability has contributed to Pakistan looking attractive to foreign banks in the next few years which means increased M&A activities.

- Pakistan was among the first three world economies to implement Islamic financing at a national level, and its emergence has allowed for greater financial inclusion of a large section of population looking for Islamic alternatives to banking products. The State Bank has formulated a Sharia Advisory Board and has issued a Sharia government framework which needs to be followed by all Islamic banks and Islamic branches of conventional banks.

- Telecom companies are moving faster into the opportunities available in financial services, given their existing huge user base, bringing new sources of capital and investment. Traditional customer loyalties are being rapidly disrupted and the banking industry will soon be forced to rethink its fulfilment strategies as well as scalable interaction with the growing target segment.

- The banking industry shows the potential of adapting to new financial technologies. This is evident from the fact that it boasts the 5th largest youth population, has an ever-increasing usage of internet and smartphones and accounts for mobile penetration of 69%. Furthermore, smartphone adoption is expected to rise from 16.60% in 2016 to 51% by 2020 and with 132 million biometrically verified SIMs, issuing wallets is possible through the click of a button.

- Digitalization has created a platform for insurance companies to base their revenues and premiums upon targeting customers through online channels and Pakistan can leap to the next generation of digital payments infrastructure and bypass the physical payments infrastructure.

- Pakistani market is devoid of formal credit history data which provides another Fintech opportunity of making micro-credit a reality for Pakistanis by referencing GSM activity for credit scoring and digitalizing most common payments such as for retail goods to school fees.

Useful web links

- State Bank of Pakistan
  www.sbp.org.pk
- Securities and Exchange Commission of Pakistan
  www.secp.gov.pk
- Ministry of Finance
  www.finance.gov.pk

Banking Sector

Financial performance as at 31 December 2016 (PKR in million)

<table>
<thead>
<tr>
<th>Commercial banks</th>
<th>Total assets</th>
<th>Net advances</th>
<th>Deposits</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Banks (Assets more than PKR 900 billion)</td>
<td>9,217,518</td>
<td>3,028,462</td>
<td>7,030,517</td>
<td>848,837</td>
</tr>
<tr>
<td>Medium Size Banks (Assets from PKR 150 to PKR 900 billion)</td>
<td>5,813,857</td>
<td>2,127,631</td>
<td>4,379,618</td>
<td>392,390</td>
</tr>
<tr>
<td>Small Banks (Assets less than PKR 150 billion)</td>
<td>674,879</td>
<td>246,982</td>
<td>469,801</td>
<td>74,591</td>
</tr>
<tr>
<td>Islamic Banks</td>
<td>1,151,616</td>
<td>566,216</td>
<td>967,787</td>
<td>80,980</td>
</tr>
</tbody>
</table>

Source: Banking Survey 2016 by KPMG Taseer Hadi & Co.
Sector overview

Pakistan is primarily an agriculture based country and the overall food supply situation is stable. Food Security Phase Classification (IPC) analysis conducted in March - June 2015 has shown 29 out of 48 districts in Pakistan are highly food insecure and require immediate attention while four of those districts have been identified with severe food insecurity and need immediate response.

The GoP introduced a National Zero Hunger Program, a collaboration project / initiative of public sector and UN agencies to address hunger and malnutrition in the country to reach the most nutritionally insecure and vulnerable sections of society across the country.

During 2016-17, food consumption was around 2,485 calories per capita per day.

Food consumption is directly related to the price of food commodities. The cost of food basket is worked out on the monthly basis from Pakistan Bureau of Statistics data based on the estimated national average food expenditure.

Many nutrition related activity programs are formed including National Secretaries for scaling up Nutrition (SUN) movement, Nutrition Support Program for Sindh and Benazir Income Support Program.

Investment towards food and nutrition has a long term beneficial effect, improving health outcomes, reducing poverty and thereby promoting to economic growth of a country.

Food Consumption 2011-17

Source: Pakistan Economic Survey 2016-17

Cost of food basket per capita/month

Source: Pakistan Economic Survey 2016-17
Sector overview

Pakistan is committed to the vision of making its population healthier which is evident by the government’s long term health sector strategies to improve health outcomes and to enhance the coverage of essential health services.

In 2016-17, the federal government will allocate PKR 22.40 billion for the vertical health programs. Implementation of Prime Minister’s National Health Insurance will also continue.

According to World Health Organisation (WHO), Pakistan is one of the 95 countries that have met the Millennium Development Goal (MDG) target for sanitation aimed at halving the proportion of the population without sustainable access to basic sanitation. According to the report, 64% of the population now has access to sanitation.

According to the World Bank, currently Pakistan’s per capita health spending is USD 36.20 which is below than the WHO’s low income countries bench mark of USD 86.

The federal government has initiated programs like national health insurance scheme, notification of drug pricing policy 2015 and continued a strong focus on polio eradication to keep people healthy.

The total public health expenditure as a percentage of GDP has increased to 0.46% in July to March 2016-17. The current level of expenditure amounting PKR 145.97 billion or 0.50% of GDP shows an increase of 8.99% over corresponding period of last year.

The ratio of one doctor per 997 persons, one hospital bed for 1,584 persons and one dentist for 10,658 persons shows clear inadequacy, particularly in the case of dentists and hospital beds.

<table>
<thead>
<tr>
<th>Healthcare manpower 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors</td>
</tr>
<tr>
<td>Dentists</td>
</tr>
<tr>
<td>Nurses</td>
</tr>
<tr>
<td>Lady health visitors</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17

<table>
<thead>
<tr>
<th>Healthcare facilities 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
</tr>
<tr>
<td>Dispensaries</td>
</tr>
<tr>
<td>Basic health units</td>
</tr>
<tr>
<td>Rural health centres</td>
</tr>
<tr>
<td>Mother and child healthcare centres</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17
The Opportunity

Healthcare funding

- Healthcare is funded both privately as well as by the government.
- Approximately 37% of consumer expenditure on health was borne by government while rest was borne by private.
- Private expenditures are made via out of pocket, cash plans, and a relatively small portion in funded through medical insurance.

Consumer expenditure

![Graph showing healthcare expenditures over years]

Source: Economist Intelligence Unit

Life expectancy

- An above average growth in population, increasing consumer expenditure on health, short life expectancy (65.90 years), high infant mortality rate, and poor quality existing hospitals creates an excellent opportunity for investment in healthcare industry.

Useful web links

- Ministry of National Health Services
  www.nhsrc.gov.pk
- Prime Minster’s National Health Program
  www.pmhealthprogram.gov.pk
Sector overview

- Pakistan’s industrial sector accounts for about 20.88% of GDP. It is also a major source of tax revenues for the government and also contributes significantly in the provision of job opportunities to the labour force.

- The overall industrial sector has shown an increase of 5.02% in 2016-17 as compared to 5.80% last year.

- The machinery group contributed to about 23% to the total import bill.

- Major sectors using industrial machinery are manufacturing, mining, gas distribution, engineering, construction and fertilizer.

- Import bill of power generating machinery recorded at USD 2,367 million during July 2016 - March 2017 as compared to USD 1,341.10 million over the same period last year, showing an increase of 76.50% reflecting key investment in power sector.

- Construction and mining machinery witnessed an increase of USD 373.20 million in 2016-17 as compared to USD 223.70 million during the last year, reflecting an increase of 25.70% in value.

Industry Snapshot

<table>
<thead>
<tr>
<th>Machinery imports</th>
<th>Up to USD 6.5 billion in July-March 2016-17.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market players</td>
<td>Ados Pakistan Limited, Descon Engineering, Heavy Mechanical Complex, Pakistan Mining and Exploration Inc., Siemens Pakistan.</td>
</tr>
</tbody>
</table>

Change in Machinery Import 2015-2016

Source: Pakistan Economic Survey 2016-17

The Opportunity

- The sector offers good opportunities for manufacturers of power generating units (both industrial and commercial), due to the power shortage prevailing in Pakistan and upcoming projects in energy and power sector.

- The manufacturing sector, especially the automotive industry having a very wide components and parts supply industry and a high level of added value, is regarded as the center of growth policy.

- Pakistan offers lucrative investment opportunities and an enabling economic environment to foreign investors with regards to ongoing development in CPEC and other infrastructure related projects.

Useful web link

- Pakistan Bureau of Statistics www.pbs.gov.pk
Investment in Pakistan

Sector overview

Pakistan is bestowed with all kinds of reserves of minerals and natural resources that include coal, gold, copper, bauxite, mineral salt, chromite, iron ore, and many others. Pakistan also mines a variety of precious and semi-precious gems ruby, topaz, and emerald.

Mining and quarrying sector recorded growth of 1.34% during the 2016-17 against the growth of 6.86% last year and contributed 2.90% towards overall GDP.

The mining and quarrying components contribute to 13.90% share of the overall industrial sector.

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The mining and quarrying components contribute to 13.90% share of the overall industrial sector.

The Opportunity

Baluchistan constitutes about 42% of the total national land and has been bestowed with substantial mineral wealth. 29 out of 51 metallic and non-metallic minerals are being exploited such as chromite, copper, iron, lead, zinc, manganese, antimony and gold etc.

Pakistan coal resource potential is estimated to be around 186 billion tonnes out of which 175 billion tonnes are found in Thar; 30 billion tonnes of which are proven reserve. Thar coal resources have an estimated potential of generating 100,000 MW and will add 660 MW of electricity by 2019.

The Federal government is also working on the transmission line to link power generation plants from Thar coal with the National grid.

Punjab has vast mineral potential like coal, salt, iron ore, limestone, gypsum, silica sand and fire clay etc. Government of Punjab is striving to follow a road map on mineral exploration projects and has made multiple efforts this year which included grant of large scale mining leases, development of mineral sector infrastructure, legal review framework etc.

New schemes for financial year 2016-17 include, construction of road network to facilitate coal supply to power plant in Jhelum, identification of effective strategies to optimize coal production, mineral resource potential of Punjab and rock salt potential blocks delineation in Salt Range, Punjab.

Useful web link

Pakistan Mineral Development Corporation
www.pmdc.gov.pk
Investment in Pakistan

Oil and Gas

Sector overview

 Lans Pakistan has become an investment destination in respect of oil and gas sector due to surge in energy demand. Moreover, the GoP is providing an investment platform for the oil and gas sector to attract local and foreign investors. As a result of these financial and structural reforms, this sector has already emerged as one of the most attractive for investment in the country.

Oil and Gas are a major component of Pakistan’s energy mix meeting over 80% of energy needs. Therefore, GoP has attached high priority to this sector.

In LNG import, Pakistan will remain substantial importer of oil as the current capacity is unable to offset rising demand.

During July-March 2017, foreign direct investment in oil and gas exploration stood at USD 96.64 million compared to USD 234.80 million during July-March 2016.

Oil

Due to massive domestic demand for oil, a large quantity of crude oil is imported every year. Production of crude oil from indigenous resources was 24.20 million barrels during July - March 2016-17.

Oil Consumption 2014 – 2020

[Graph showing oil consumption from 2014 to 2020]

Oil Production 2014 – 2020

[Graph showing oil production from 2014 to 2020]

Middle East remains Pakistan’s top crude supplying region with Saudi Arabia and UAE holding dominant market share. However, the return of Iranian crude to market is set to dilute share among Middle Eastern suppliers.

At present, total refining capacity is 18.80 million tonnes while consumption is 22.06 million tonnes.

Useful web links

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Gas

Natural gas is an environment friendly fuel which contributes around 46% towards total primary energy supply mix.

Pakistan has an extensive gas network of over 12,202 km transmission, 119,736 km distribution and 32,823 services gas pipelines to cater the requirement of more than 8.4 million consumers across the country by providing about 4 billion cubic feet per day natural gas.

During July 2016 to February 2017, Sui Northern Gas Pipeline Ltd. (SNGPL) and Sui Southern Gas Company Ltd. (SSGCL) have laid 814 km gas transmission network, 4,153 km distribution and 1,162 km services lines, and connected 104 villages/towns to gas network.

Recently, SNGPL and SSGC have laid down a pipeline of 1,200 mmcmd for transporting imported LNG from Karachi to Lahore.

Dry natural gas production and consumption forecast 2014-19

Source: BMI research
The Opportunity

- Pakistan is rich in natural resources and has the capacity to become self-sufficient in energy. Pakistan holds around 3 trillion cubic meters of shale gas resources and nearly 9 billion barrels of shale oil. Domestic firms are unable to develop these resources thereby providing opportunity for foreign firms to explore it further. China is one of the significant investors of oil and gas sector and it has agreed to discover untapped shale gas reserves.

- In the next couple of years, Pakistan is expected to become mature LNG import market with few more projects to come online along with natural gas pipeline capacity enhancement projects of the country. 600 mmcmd Gasport Terminal will be commissioned by mid-2017. A number of projects under development include 500 mmcmd GEI Terminal, 500 mmcmd China - GOP funded and three 200 mmcmd project each expected to be completed in 2017/18.

- According to the Iran Pakistan Gas Pipeline Agreement, Iran will supply 21.50 million cubic meters gas for 25 years. This would likely enable Pakistan to generate almost 4,000 MW of electricity and ease its energy crisis to a great extent. Due to US sanctions, the project is delayed.

- Pakistan is all set for the completion of its 3rd terminal that will have a capacity of 750 million cubic feet per day (mmcmd) at Port Qasim’s LNG Zone in Karachi.

- For sustainable growth of energy sector, government has approved the provision of RLNG to this sector with various fiscal incentives and tax benefits.

- OGDCL has made three discoveries of oil and gas from its exploratory well located in Sindh which will result in an increase of 30 mmcmd gas in total output of the country.

- Pakistan has discovered fresh hydrocarbon deposits in six wells that will add 50.10 million cubic feet per day of gas and 2,359 barrels per day of oil to the existing production levels.

- Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline is approved; civil work to start December 2017 and the project is expected to be completed by the end of 2019.

- Gwadar-Nawabshah Pipeline and North-South Pipeline will be commissioned by end of 2019.

- In October 2015 Pakistan and Russia signed a deal to build a 1,100-km north-south pipeline, with an annual capacity of 12.40 billion cubic metres, to transport LNG from Karachi to Lahore. The pipeline will be built by mid-2018 and fully commissioned by mid-2020. Russia will lend Pakistan USD 2 billion for the project.

- During the 2015-16, Investment of PKR 2.50 billion approximately has been made in the LPG supply infrastructure whereas total investment in the sector till date is estimated at about PKR 22.45 billion. During 2015-16, OGRA issued 15 licenses for Operational Marketing of Storage and Filling Plants, 36 licenses for construction of LPG storage and filling plants, 25 licenses for construction of LPG Auto-Refuelling Stations and one license for Storage and Refuelling of LPG. Further, one license for construction of production and storage of LPG facility is also issued by OGRA which shall result in improving supply and distribution of LPG as well as create job opportunities in the sector.

- OGRA issued 15 licenses for Operational Marketing of Storage and Filling Plants, 36 licenses for construction of LPG storage and filling plants, 25 licenses for construction of LPG Auto-Refuelling Stations and one license for Storage and Refuelling of LPG. Further, one license for construction of production and storage of LPG facility is also issued by OGRA which shall result in improving supply and distribution of LPG as well as create job opportunities in the sector.

<table>
<thead>
<tr>
<th>Dry natural gas consumers 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic consumers</td>
</tr>
<tr>
<td>Commercial consumers</td>
</tr>
<tr>
<td>Industrial consumers</td>
</tr>
</tbody>
</table>

Source: Energy Insight
Sector overview

- Total pharmaceutical market size was about PKR 300 billion in 2015. It is a highly regulated industry, having highly skilled manpower.
- Pakistan has about 400 pharmaceutical manufacturing units including those operated by 25 multinationals present in the country.
- Pharmaceutical sales in Pakistan were around USD 2.61 billion in 2016 and are forecast to rise by 22% to reach USD 3.19 billion by 2020. Pharmaceutical sales as a percentage of GDP was 0.99% in 2016.
- Pakistan pharma products worth USD 139.80 million were exported in July 2016 - February 2017 as compared to USD 137.80 million in the corresponding period last year.
- The industry takes in around 184,711 doctors, 16,652 dentists and 94,766 nurses.
- Total public expenditure as a percentage of GDP has increased to 0.50% in 2015-16, showing an increase of 17.20% over the last year.
- Currently the industry has the capacity to manufacture a variety of products ranging from simple pills to sophisticated Biotech, Oncology and Value Added Generic compounds.
- The Pakistan pharmaceutical industry meets around 70% of the country’s demand of finished medicine in terms of volume. The domestic pharmaceutical market, in terms of share market is almost evenly divided between the nationals and the multinationals.

Industry Snapshot

<table>
<thead>
<tr>
<th>Market size</th>
<th>400 pharmaceutical manufacturing units; 25 multinationals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major market players</td>
<td>Abbott Laboratories, Sanofi Aventis, Bosch pharmaceutical, Glaxo SmithKline Pakistan, Getz Pharma, J ohnson and J ohnson, Merck Marker, Novartis, Pfizer Laboratories, Reckitt and Benckiser, Roche, Zafa Pharmaceutical.</td>
</tr>
<tr>
<td>Domestically produced drugs</td>
<td>Pain killers, anti-stress and anti-depressants, anti-infective, penicillin, herbal medicines, homeopathic, etc.</td>
</tr>
<tr>
<td>Imported products</td>
<td>Antibiotics, vaccines, analgesics, tranquillizers, drugs for treating cardiovascular diseases and cancer.</td>
</tr>
<tr>
<td>Import markets</td>
<td>US, UK, Germany, Switzerland, Japan, Netherlands, France, China and Indonesia.</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2015-16 / ppma.org.pk
The Opportunity

- Pharma industry export size currently stands at around USD 100 million and has the potential of crossing USD 1000 million mark.

- At present Pakistan is exporting its medicine to Far East, South East Asia, Africa and Middle Eastern countries.

- Healthcare spending in Pakistan is expected to increase from USD 7.20 billion in 2015 to USD 10 billion in 2020. Health expenditure as a percentage of GDP in 2016 was 2.93%.

- Population growth forecast is at an average of 1.99%.

- Due to rising life expectancy, spending in healthcare is expected to rise in the coming years and forecasts predict Pakistan to be 11th largest pharmaceutical market globally.

- Pakistan has a high population growth rate, rising life expectancy and consequent rise in older age group, yet Pakistan has more than 35.40% of its population below the age of 15 years. Infant mortality is high, as is maternal mortality. All these factors along with increasing urbanization, number of doctors and private investment in new hospitals and clinics should stimulate demand for pharmaceutical products and health care services.

![Image of pharmaceutical products packaging line](image_url)

Useful web links

- Ministry of National Health Services
  - www.nhsrlc.gov.pk
- Pakistan Pharmaceutical Manufacturers Association
  - www.ppma.org.pk
Realizing the importance of energy, the government is making all efforts to achieve the long-term vision of the power sector to overcome its challenges. The government is attracting foreign companies to undertake new exploration and production activities by giving attractive incentives. The CPEC is expected to add 10,400 MW to the grid by the year 2018. The projects include coal, hydro and wind. It will also significantly change the energy mix, replacing expensive oil and resulting in reduction of the average cost of generation.

During July 2016 – March 2017, the installed capacity in the PEPCO system remained 25.10 million MW compared to 22.90 million MW during the same period last year with hydro 7,097 MW, thermal 16,305 MW, and nuclear 1,005 MW.

During this period, electricity generation through thermal remained 54,366 Gwh compared to 62,721 Gwh while 25,211 Gwh compared to 34,574 Gwh last year through hydel source.

During summer, electricity demand-supply gap reaches up to 6,000 MW resulting in load-shedding of up to 8-16 hours per day. By 2020, peak demand is expected to reach around 29,000 MW; an additional demand of 13,310 MW requiring an investment amounting to USD 15 billion.

With concrete and sincere efforts of the GoP, almost 12% growth has been observed in real value addition of electricity generation and distribution and gas distribution during 2014-15 and 2015-16 which in turn helped the real GDP growth of 4.70% during 2015-16.

The GoP is planning to shift electricity generation from the costly diesel and furnace oil to coal in order to generate cheaper electricity.

The bulk of expansion in hydropower capacity during the forecast period will take place during 2017-20.

Composition of Installed power generation capacity (GW) 2013-2017

Source: Pakistan Economic Survey 2016-17
The Opportunity

Existing energy mix is highly skewed towards oil and gas (local & imported) instead of indigenous hydro, coal and renewables.

Pakistan Energy Mix (MW) 2015-2016

```
| Source: Energy Report 2016-17 |

Pakistan has large, economically viable resources in wind, solar, biomass, waste, geothermal and hydel power, waiting to be harvested.

Hydro

- A number of new hydroelectricity projects are under way, which will help to raise hydropower generating capacity from an estimated 7,035 MW in 2015 to 13,135 MW in 2020. First IPP hydro 84 MW New Bong Hydropower Project has been commissioned.

- Currently, there are 4 hydro projects under development with a combined capacity of 2,792 MW; the additional 3 projects are in pipeline of 3,699 MW and planned to be completed within next two to three years.

- The Government is determined to execute on priority basis, projects such as 969 MW Neelum Jhelum, 2,730 MW Tarbela Extension 4&5 and 4,500 MW Diamer-Bhasha hydropower projects.

Coal

- Pakistan ranks 7th in the world among coal-rich countries and enjoys abundance in coal reserves estimated at 185 billion tonnes in different parts of the country, which could be used as a primary and inexpensive source for power generation.

- Despite several renewable energy projects, the bulk of new energy generation capacity under CPEC will be coal-based plants, with USD 12.29 billion worth of coal power projects expected to be completed by early 2019 as part of the CPEC’s “Early Harvest” projects.

- There are an aggregate of 5 projects under construction that will produce power of 5,940 MW.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Installed capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Qasim Coal Power Project</td>
<td>1,320</td>
</tr>
<tr>
<td>Engro Powergen Thar Project</td>
<td>660</td>
</tr>
<tr>
<td>Sahiwal Coal Power Project</td>
<td>1,320</td>
</tr>
<tr>
<td>HUBCO Coal Power Project</td>
<td>1,320</td>
</tr>
<tr>
<td>Thar Coal Block-I (Shanghai) Project</td>
<td>1,320</td>
</tr>
</tbody>
</table>

Source: www.cpec.gov.pk

- Pakistan Mineral Development Corporation (PMDC and Lakhra Coal Development Company (LCDC) are engaged in extraction of coal in Sindh and Baluchistan Provinces, produced about 558,000 tons and 235,000 tons of coal during 2015-16.

- Annual domestic coal production is around 3.50 million tons. About 4-5 million tons of coal is imported to meet the supply and demand gap of coal.

- As per PPIB six power generation projects based on indigenous coal with cumulative capacity of 4,290 MW and seven power projects based on imported coal with cumulative capacity of 5,201 MW are presently under process at various stages to be completed between 2017-2021.

- The Ministry of Water and Power submitted before the PAC that Thar coal projects in Thar Block, Sindh, would bring 3,960 MW in the national grid, imported coal 4,260 MW, hydro 2,714 MW, solar 900 MW and wind would add 300 MW into the system.

Wind

- The wind map of Pakistan identifies that the country has a potential of about 340,000 MW.

- Pakistan is establishing small wind power generation projects in cooperation with China at various places in Sindh as 50 MW Gwadar Wind Energy Ltd at Jhampir, 30 MW Tapal Wind Power Plant Under Construction in Jhampir and 50 MW Master Energy Wind Power Project at Jhampir.

- There are 14 wind power projects with a capacity of 728 MW which have started commercial operation and are supplying electricity to National...
Grid whereas 12 projects are under development of 564 MW due to be completed in 2017-18.

The Gharo-Keti Bander wind corridor, in the South of Pakistan, having an approximate potential of 50,000 MW, is the most attractive for investors at this point due to good resource potential as well as its close proximity to major load centres and the National Grid.

**Solar**

Solar irradiance levels in parts of Pakistan, particularly in the southwest, are on par with the best in the world with global horizontal irradiance values over 1,500 kWh/m² in over 90% of the country’s land area.

The Quaid-e-Azam Solar Park, Bahawalpur, the first ever DC installation in Pakistan, is currently producing up to 12% more power than the energy production requirements set by the National Electric Power Regulatory Authority (NEPRA). The plant is giving an average yield of 169 GW hour against the annual target of 153 GW hour to meet 153 million units production requirement.

The Alternative Energy Development Board (AEDB) is pursuing 28 solar photovoltaic power projects that would have a cumulative capacity to produce 956.52 MW of clean energy. Energy purchase and implementation agreements have been signed for three solar power projects including Apollo Solar Pakistan Limited (100 MW), Crest Energy Pakistan Limited (100 MW) and Best Green Energy Pakistan Limited (100 MW) located at Quaid-e-Azam Solar Park.

Out of the above 28 projects, seventeen solar power projects with cumulative capacity of 484 MW are at different stages of project development and will be completed during 2018-19.

**Nuclear**

The GoP has mandated Pakistan Atomic Energy Commission (PAEC) for the installation of 8,800 MW nuclear power capacities by the year 2030. Thus PAEC is actively planning to develop additional sites to install future nuclear power plants. Sites have been identified and acquired throughout the country which are being investigated for development.

At present four nuclear plants i.e. Karachi Nuclear Power Plant (KANUPP) at Karachi, Chashma Nuclear Power Unit 1 Unit-2 and Unit-3 (C-1, C-2 and C-3) at Chashma (Mianwali) are operating with gross capacity of 1,090 MW.

Chashma C-4 unit with a capacity of 340 MW is currently under construction and expected to become operational in 2017. In addition, Karachi Coastal Power K-II and K-III Nuclear Projects of 1,100 MW each are also under development stage and due to be completed from early upcoming decade.

**Biomass**

AEDB has developed framework to tap the potential of power generation from sugar mills in Pakistan.

Currently, there are 4 biomass cogeneration operational projects of 145 MW and 9 projects under development of 297 MW.

**Useful web links**

- Private Power & Infrastructure Board [www.ppib.gov.pk](http://www.ppib.gov.pk)
- Alternative Energy Development Board [www.aedb.org](http://www.aedb.org)
- National Electric Power Regulatory Authority [www.nepra.org.pk](http://www.nepra.org.pk)
Investment in Pakistan

Sector overview

Pakistan’s IT industry is flourishing with more than 2,500 registered IT organizations working within the country and approximately 20,000 computer science majors entering the market every year.

Pakistan’s domestic market computer hardware reported sales of USD 617 million in 2016 and is expected to grow at a CAGR of 3.40% to USD 707 million in 2020.

Telecom sector contributed PKR 53.76 billion during the first two quarters of 2016-17 to the National Exchequer in terms of taxes, regulatory fees and other charges.

Pakistan was awarded with the prestigious ‘Spectrum for Mobile Broadband Award’ at the Mobile World Congress 2015 held in Barcelona, Spain.

The total number of mobile subscriptions in Pakistan reached at 139.11 million as of March 2017.

In terms of overall investment in the telecom sector, the momentum started in 2013 for the upgradation of telecom networks for 3G and 4G services has continued. Telecom operators have invested a significant amount of USD 287.60 million during July - December 2016.

The total international traffic (incoming and outgoing) stood at 14,545 million minutes during July - March 2016 as compared to 5,643 million minutes during the same period in last year.

Broadband subscribers showed strong growth during the July 2016 - March 2017 which stood at 42.36 million depicting 31% growth over the last 9 months.

Teledensity 2012 till 2016

Source: Pakistan Telecommunication Authority

Source: Pakistan Telecommunication Authority
The Opportunity

- In order to open up new opportunities for advanced data and telecom services in AJK and GB regions, PTA conducted auction of additional spectrum for WLL services at AJK and GB in December 2015.

- PTA has launched a web portal named "Smart-Pakistan" to provide one-stop repository and directory of mobile applications focusing on different thematic areas such as m-Education, m-Health, m-Government.

- PTA in collaboration with Islamabad Police and mobile application developer "Pure Push" developed Mobile Emergency Alert System for schools to ensure effective security of schools, colleges, universities and hospitals situated in Islamabad Capital Territory.

Wireless Telecom Subscriber's Market Share - March 2017

- Mobile phone users in Pakistan, from all operators, touched 139.11 million at the end of March 2017.
- Mobile handset sales amounted to USD 2.57 billion in 2016 and is expected to grow at a CAGR of 10% to USD 3.76 billion in 2020.
- The demand for low priced smartphones is expected to grow rapidly. Pakistan’s mobile phones penetration rate stood at an estimated 70.30% in 2016 where as smartphones made up about 35% of total mobile phone shipments, leaving ample scope for growth.

Number of 3G and 4G Users in Pakistan - March 2017

- 3G: Jazz 12.4 Million, Zong 7.8 Million, Ufone 4.7 Million, Telenor 0.3 Million
- 4G: Jazz 0.8 Million, Zong 3.4 Million, Ufone 10.5 Million

Source: Pakistan Telecommunication Authority

Useful web links

- Ministry of Information Technology
  www.moit.gov.pk
- Pakistan Telecommunication Authority
  www.pta.gov.pk

Industry Snapshot

<table>
<thead>
<tr>
<th>Market Size</th>
<th>Telecom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cellular subscribers: Over 139.1 million</td>
<td>Jazz* (38%), Telenor (29%), Zong (20%) and Ufone (13%)</td>
</tr>
<tr>
<td>Broadband Subscribers: Over 42.3 million</td>
<td></td>
</tr>
</tbody>
</table>

Cellular Market players with market share (March 2017)

- *World merged in PMCL (Mobilink) with new name Jazz from Jan-17

Emerging Technologies

- 4GS; WiMAX, EVO, VDSL

Source: Pakistan Telecommunication Authority
Sector Overview

Textiles being the most significant manufacturing sector of Pakistan has the longest production chain, with inherent value adding potential at each processing stage - from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups and garments.

The sector provides employment to about 40% of industrial labour force. Additionally, it consumes nearly 40% of banking credit to the manufacturing sector and also accounts for 8.50% of GDP.

Excluding seasonal and cyclical fluctuations, textile products have maintained an average share of about 62% in national exports. Pakistan is the 4th largest producer and 3rd largest consumer of cotton globally, but its comparative advantage diminishes due to export of low value added textiles products.

Export Composition of Pakistan Textile 2016 – 2017

Generally export earnings from garments have increased significantly. Exports increased from 23.70 million dozens in various types of readymade garments worth USD 1,608.70 million in 2015-16 to 24.82 million dozens worth USD 1,704.06 million in 2016-17, showing an increase of 5.93% in terms of value and 4.72% in terms of quantity.

The textile industry consists of 11.30 million spindles, 3 million rotors, 350,000 power looms, 18,000 knitting machines and processing capacity of 5.20 billion sq. meters. It also has 700,000 industrial and domestic stitching machines.

There are 21 filament yarn units having a capacity of 100,000 tons and the industry is supported by PTA plant which has 500,000 tons capacity. Thus a complete textiles value chain exists in the country which is rare in the world, unlike many competitors which have only primary base or the finished base.

Pakistan cotton production for 2016-17 was estimated at 10.67 million bales (mb), up 7.60% from last season but was lower than the target of 14.10 million bales by a considerable margin. The weaker than expected recovery is mainly due to a sharp decline of 14.20% in the sowing area.

Industry Snapshot

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total export 2016-17 (Jul to Mar)</td>
<td>USD 15.1 billion</td>
</tr>
<tr>
<td>Employment</td>
<td>40% of industrial labour force</td>
</tr>
<tr>
<td>Cotton cropped area</td>
<td>2.5 million hectares</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17 / the News
The Opportunity

Following are the salient features of Textile Policy 2014-19:

Mark up rate for Export Refinance Scheme of SBP was reduced from 9.40% to 7.50% effective from 1st July 2014.

Textile industry units in the value added sector will be provided Long Term Financing Facility for the upgradation of technology from SBP at 9% for a 3-10 year period.

An expeditious refund system has been introduced and a fast track channel for manufacturers-cum-exporters created.

A new vocational training programme to be launched through Public Sector Development Programme (PSDP) to train sufficient men and women over a five year period for skills required in the value added sector such as garments and made ups. The project will be completed in two phases while vocational training and factory spaces will be utilized for training purpose.

Technology Upgradation Fund including for SMEs will also be extended for this Policy Period, with the main aim of the scheme being improving overall technological configuration of the sector, removing critical imbalances in the value chain and achieving compliance with international standards.

The Ministry to take measures to give priority to textile sector for availability of energy to fully utilize the GSP+ status.

The Ministry to introduce new projects through PSDP funding. Additionally, the ongoing projects will be revitalized to develop their plans for phase II, to attain final shape as envisaged in the plan.

Moreover, the Ministry is to increase strength of workforce in attached offices and technical wings to meet enhanced futuristic needs of the sector.

The Government of Pakistan has made improvisations in the textile policy in order to support and uplift the sector. The revisions emphasize on proper infrastructural facilities, adequate investments, proper training centres, research institutes for developing quality products in the textile industry. It will also concentrate on regional trading in order to expand production capacities of garments in Karachi, Islamabad, and Faisalabad.

The Government has also announced the country’s biggest export package worth PKR 180 billion to enhance foreign trade.

The package envisages abolition of customs duty and sales tax on import of cotton.

Useful web link

Ministry of Textile Industry
www.textile.gov.pk
Investment in Pakistan

Sector overview

In 2016, tourism contributed 6.90% of Pakistan’s GDP. It includes foreign and domestic travel and tourism spending or employment in the equivalent economy-wide concept in the published national income accounts or labour market statistics.

There are multiple indicators showing this industry will contribute more going forward. Growth in air travel and hotel occupancy are among the top indicators of travel and tourism industry growth.

More than one million tourists, locals and foreigners visited the northern areas of Pakistan during 2015-16 with a growth of 25% in the sector mainly due to measures taken by the government to improve law and order situation in the country.

According to the biennial report of the World Economic Forum, Pakistan is ranked 124th in terms of foreign tourists in 2017.

Pakistan has become the member of Shanghai Cooperation Organization. One of its main objective is Tourism and Environmental protection.

Estimates show that about 80 million people in Pakistan travel for tourism purposes within the country annually.

To cater the needs of local and foreign tourists visiting renowned high mountain peaks, glaciers, beautiful valleys and historical places such as Mohenjo Daro, Thatta, Taxila, Harappa an immerse opportunity exists to enhance the hotel and Infrastructure network and facilities.

Travel and Tourism Total Contribution to GDP 2011-2016

Source: Knoema

Useful web links

Pakistan Tourism Development Corporation
www.tourism.gov.pk
## Transportation

### Sector overview

- A modern transport facility plays an important role in the economic development of a country. Pakistan, taking advantage of its strategic location and with a reasonable transport infrastructure, is developing efficient and well-integrated infrastructure by connecting remote areas of the country into one road one Asia chain.

- The road network of Pakistan is about 264,401 km and carries over 96% of inland freight and 92% of passenger traffic.

- National Highway Authority (NHA) has planned development of 2,395 km long CPEC connecting Gwadar to Kashgar and has also planned Karachi - Lahore Motorway which is part of CPEC.

### Industry Snapshot

<table>
<thead>
<tr>
<th>Road network</th>
<th>264,401 km</th>
</tr>
</thead>
<tbody>
<tr>
<td>High type roads</td>
<td>188,331 km</td>
</tr>
<tr>
<td>Low type roads</td>
<td>76,070 km</td>
</tr>
<tr>
<td>Railway network</td>
<td>7,791 km</td>
</tr>
<tr>
<td>International airports</td>
<td>13 (Karachi, Islamabad, Lahore, Peshawar, Multan, Turbat, Sialkot, Faisalabad, Gwadar, Quetta, Dera Ghazi Khan, Rahim Yar Khan and Rawalpindi)</td>
</tr>
<tr>
<td>Seaports</td>
<td>3 (Karachi Port, Port Qasim and Gwadar Port)</td>
</tr>
</tbody>
</table>

*Source: Pakistan Economic Survey 2016-17*
Investment in Pakistan

Roads

Road infrastructure has a profound and enduring effect on the economic growth of Pakistan. NHA being the lead agency has constructed and rehabilitated roads all over the country to bring about qualitative improvement in standard of living.

Currently NHA is developing road infrastructure and has commenced a number of projects such as, Sialkot-Lahore Motorway (M-II), Multan-Sukkur Motorway (M-5), Karachi-Hyderabad Motorway (M-9) etc.

Recently, Green Line Bus service is under construction in Karachi to provide effective and efficient transport service.

During 2015-16, 90 km of track were rehabilitated and an upgraded signalling system was installed at 23 railway stations.

NHA also aims to reduce transportation costs, safety in mobility, connectivity between urban and rural areas and transportation corridors connecting major regional trading partners.

The advent of CPEC will serve as a driver for connectivity between South Asia and East Asia linking Western China to Pakistan centres of Lahore, Islamabad, Karachi and Gwadar Port.

GoP has several other projects at the planning stage and under construction in other cities to improve the road, traffic, and environmental situations.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>221</td>
<td>286</td>
<td>308</td>
<td>814</td>
</tr>
<tr>
<td>Sindh</td>
<td>81</td>
<td>114</td>
<td>100</td>
<td>295</td>
</tr>
<tr>
<td>Khyber Pakhtunkhwa</td>
<td>189</td>
<td>218</td>
<td>198</td>
<td>605</td>
</tr>
<tr>
<td>Baluchistan</td>
<td>104</td>
<td>218</td>
<td>147</td>
<td>468</td>
</tr>
<tr>
<td>Total</td>
<td>595</td>
<td>836</td>
<td>753</td>
<td>2,182</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2015-16

Railways

Ministry of railways is taking new initiatives to improve performance of Pakistan Railways and will take necessary steps in the coming years to increase share in the overall transport sector of Pakistan from 4% to 20%.

GoP has allocated PKR 41 billion in PSPD in 2016-17 for the development interventions in Pakistan Railways.

Up-gradation of Mainline I, II and III and computerization of railway land record are some of the initiatives taken to improve service quality.

<table>
<thead>
<tr>
<th>Railway passengers</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers carried</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger traffic (km)</td>
<td>14,486</td>
<td>16,333</td>
<td>17,470</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17

Useful web links

National Highway Authority  
www.nha.gov.pk

National Transport Research Centre  
www.ntrc.gov.pk

Pakistan Railways  
www.pakrail.gov.pk
Investment in Pakistan

Ports and Shipping

Pakistan National Shipping Corporation

At present, Pakistan National Shipping Corporation (PNSC) fleet comprises of 9 vessels of various type / size (5 Bulk carriers and 4 Aframax tankers) with a total deadweight capacity (cargo carrying capacity) of 681,806 metric tons i.e. highest ever carrying capacity since its inception.

Crude oil availability in time plays an important role in running the transport sector business and furnace oil and has much more importance to keep the power plants in running position.

Almost 70% of all the total imports of crude oil are undertaken by PNSC except for 30% which is handled by other sources. PNSC is now actively working upon a plan to increase its tanker fleet size, particularly to carry processed fuel like fuel oil, high speed diesel oil, jet fuels, naphtha and gasoline.

In order to expand business and to cater the growing need of country’s requirement of liquid and dry imports, it is planned to acquire more oil tankers and dry cargo ships into PNSC fleet.

<table>
<thead>
<tr>
<th>Cargo Lifted (million tonnes)</th>
<th>Years / Cargo Lifted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Liquid Cargo</td>
</tr>
<tr>
<td>2011-12</td>
<td>7.8</td>
</tr>
<tr>
<td>2012-13</td>
<td>10.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>15.4</td>
</tr>
<tr>
<td>2014-15</td>
<td>14.7</td>
</tr>
<tr>
<td>2015-16</td>
<td>11.8</td>
</tr>
<tr>
<td>2016-17 (Jul-Mar)</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey 2016-17

Karachi Port Trust

The business at Karachi Port Trust (KPT) is continuously progressing due to increased international trade with regional and international countries. During July to March 2016-17, the total volume of cargo handled was 39.02 million tons as compared to 36.52 million tons in the same period of 2015-16.

KPT consists of two wharves; the East and West Wharf. East wharf has 17 multipurpose berths and West wharf has 13 berths. Each of the wharves has two dedicated container terminal and oil piers to handle liquid cargo. KPT operation comprised upon 11.50 kilometres long approach channel, a depth of 12 meters and a turning basin of 600 meters. KPT provides safe navigation for vessels up to 75,000.

Port Qasim Authority

Port Qasim is the deepest seaport of Pakistan and first industrial and commercial port of Pakistan operating under landlord concept and plays a vital role in the economic development of the country, catering for around 40% seaborne trade of Pakistan.

Gwadar Port

Gwadar is the first port on the south-western Arabian Sea coastline, in the Baluchistan province of Pakistan. It is about 635 km from Karachi and 120 km from the Iranian border by road.

Gwadar Port is fully functional with three multipurpose berths, each 200 meters in length dredged to 14.50 meters in depth alongside the berth, handling a ship of 50,000 DWT capacity. By 2055, it is anticipated that Gwadar Port will be the largest site of its kind in Pakistan, with a 50 km sea front and 10,000 hectares of port backup area.

Since 2008, Gwadar Port has handled around 6.33 million metric tons of dry bulk cargo comprising of wheat and urea by 201 ships.

Useful web links

Ministry of Ports and Shipping
www.mops.gov.pk

Pakistan National Shipping Corporation
www.pnsc.com.pk

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Aviation and Airline

During the year 2015-16 aviation industry experienced a growth of 5.50% in the passenger business.

Domestic passengers stood at 3.15 million while international passenger traffic was 11.90 million during FY15.

There are three major domestic players in Pakistan; Pakistan International Airlines (PIA) being the national carrier, Shaheen Air International and Air Blue.

**Domestic market share - 2015**

- **PIA**: 51%
- **Shaheen**: 27%
- **Air Blue**: 13%
- **Others**: 9%

**International market share - 2015**

- **PIA**: 23%
- **Shaheen**: 12%
- **Air Blue**: 9%
- **Others**: 56%

Useful web links

- Pakistan civil aviation authority
- International Air Transport Association
  - [www.iata.org](http://www.iata.org)
Investment in Pakistan

Regulatory Framework for Investors

Foreign investment in Pakistan is fully protected by following Acts:


Investment policy

In order to protect and stimulate investment (both local and foreign) in Pakistan, the ‘Investment Policy 2013’ has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI in the country.

Guiding Principles of the Investment Policy

Following basic principles provide theme of the Policy:

- Reducing the cost of doing business in Pakistan

To facilitate market entry for investors, BOI has been aiming to reduce cost of doing business in Pakistan. Investment opportunities and information vital to start business in Pakistan and online visa registration has been introduced.

- Reducing the processes of doing business

BOI is moving towards one-window operations. The aim is to offer constructive policy parameters for removing unnecessary regulations and minimizing the cost to business by necessary streamlining of regulations.

- Ease of doing businesses with creation of industrial clusters and Special Economic Zones (SEZs)

Introduction of industrial cauterization with promulgation of SEZ Act, 2012, BOI has endeavored to establish forward and backward linkages in the market with supply chain availability. Adequate business infrastructure coupled with BOI One Window facilitation services to make doing business easy.

- Linkages of trade, industrial and monetary policies for greater convergence

Linkages of macro and micro economic policies will bring all stakeholders (Line Ministries, Provincial Governments, Regulators and other relevant departments) in unison for greater convergence on important nation public policy agenda to enhance transparency, predictability and consistency in the system.
Approach of the Investment Policy

The current policy document is designed to align Federal Policy for foreign Investment to further easing out all sectors for foreign and domestic investors through specific interventions for ease of doing business with reduced processes.

§ From comparative advantage to competitive advantage

Strategically located between the Middle East, East Asia, Central Asia, and South Asia, Pakistan has a great potential to become regional trade and investment hub with more connectivity through land, sea, and air routes.

The country has a large and growing domestic consumer market, which could become a powerful draw with enhanced buying power parity and skilled and semi-skilled work force. There is no dearth of natural resources. Vast tracks of agricultural land can make Pakistan the food basket of the region.

The Policy thereby has a forward looking and outreach approach and thereby designed to keep “what an investor looks for” in a preferred investment location:

- Level of relative risk – including economic, political, currency, and natural disaster
- Market access – including size of local market and access to international markets
- Cost, availability and quality of inputs – including land, labor, raw material, energy and taxes
- Connections to global transportation and communication networks – including time, cost and reliability of sea, road, rail, etc.
- Openness of regulatory regime – includes approvals process, regulations and rule of law.

§ Intergovernmental and Interagency Context

The Investment Policy takes a horizontal approach to improving the underlying investment climate in Pakistan. Policies governing investment in all sectors are equally liberal and favorable towards investors and required conditions in specific sectors are applicable to all investors; domestic and foreign.

The New Growth Framework launched by the Planning Commission focuses on four areas that intersect closely with the Investment Policy:

- Productivity: Increased factor productivity is important for attracting foreign investors into Pakistan; conversely, the presence of foreign investors will play a large role in increasing productivity by introducing new technologies and management practices.
- Better governance: Improved public service delivery is required to attract and allow investors to succeed in Pakistan. Reducing interventions that distort markets will also create space for investors to enter and thrive as will the streamlining of regulations, laws, and enforcement.
- Competitive markets: Foreign companies, like all companies, should be able to enter and exit the market as freely as possible without overly burdensome regulations or distortive policies.
- Innovation and entrepreneurship: Foreign investors bring valuable experience and resources to spur innovation and entrepreneurship. Their presence in the market also creates competitive pressures that spur innovation from domestic firms.

Investment Protection

BOI is cognizant that the role of the government is to eliminate or reduce the level of risk and provide tools to mitigate them. Investment Policy 2013 reinforces the commitment to investors regarding security and safety of their investments.

Investor rights

All foreign investors in relation to the establishment, expansion, management, operation, and protection of their investments shall be accorded fair and equitable treatment without discrimination.

Pakistan has signed Bilateral Investment Treaties (BITs) with more than fifty countries across the world.

The Multilateral Investment Guarantee Agency (MIGA) of the World Bank provides political risk insurance (guarantees) for projects in a broad range of sectors in developing member countries, covering all regions of the world.

Right to due process of law

There are currently two main pieces of legislation dealing with arbitration in Pakistan:

- The Arbitration Act, 1940
Enhancement of Physical Security

The BOI, in coordination with Provincial Investment Promotion Agencies (IPAs) provides coordination for “airport-to-airport” security for foreign investors. To avail this service, registered foreign investors or bona fide potential investors shall make the request to the BOI with adequate notice and the details of the itinerary. The service includes coordination with local police for escort and advice on making secure lodging and transportation arrangements.

Intellectual Property Rights Protection

The Intellectual Property Organization (Cabinet Division) established in 2005 and has upgraded IPR policies. Statutory penalties for violations are enhanced, particularly for copyright and patent infringements and other measures have been taken to enforce the policies.

FDI Strategy 2013 - 17

FDI Strategy outlines a conceptual framework for cooperation of economic sectors in Pakistan, public and private sectors, towards mobilizing the Private Investments, (domestic and foreign) that are required to achieve Pakistan’s economic targets including:

- Increasing the existing growth rate
- Enhancing the employment opportunities
- Building a knowledge-based economy and prioritizing the development of human capital
- Enhancing the global competitiveness of the Pakistani economy

Key action plans (operational windows) of attracting FDI in the country are:

- Institutionalizing a structured Public - Private Sector Dialogue as a framework of co-operation including improving investment protection
- Promoting FDI by promoting the investment projects internationally, image building, creating and facilitating economic zones, etc.

Policy package

<table>
<thead>
<tr>
<th>POLICY PARAMETERS</th>
<th>Manufacturing Sector</th>
<th>Agriculture</th>
<th>Non-Manufacturing Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Infrastructure &amp; Social</td>
<td>Services Including It &amp; Telecom</td>
</tr>
<tr>
<td>Government permission</td>
<td>Not required except for 4 specific industries [1]</td>
<td>Not required except specific licenses from concerned agencies</td>
<td></td>
</tr>
<tr>
<td>Remittance of capital, profits, dividends etc.</td>
<td>Allowed</td>
<td>Allowed</td>
<td></td>
</tr>
<tr>
<td>Upper limit of foreign equity allowed</td>
<td>100%</td>
<td>100% [2]</td>
<td>100%</td>
</tr>
<tr>
<td>Custom duty on import of plant, machinery and equipment</td>
<td>5%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Tax Relief (Initial depreciation allowance, % of plant, machinery &amp; equipment cost)</td>
<td>25%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Royalty &amp; Technical Fee</td>
<td>No restriction on payment</td>
<td>Allowed as per guidelines Initial lump-sum up to USD100,000 – Max rate 5% of net sales – Initial period 5 years</td>
<td></td>
</tr>
</tbody>
</table>

Note [1]: Specified Industries are: Arms and ammunition, High explosives, Radioactive substance, Security printing, Currency and mint
Note [2]: Only for corporate agriculture farming
Investment in Pakistan

Features of visa policy & facilitation

Work visa

Pakistan missions abroad are authorized to grant entry Work Visa to foreign expatriates on the recommendations of Board of Investment for one year (Multiple) validity, extendable on yearly basis in Pakistan.

Application for Business visa

Pakistan missions abroad are authorized to grant five years multiple entry visa within 24 hours to businessmen of 67 countries mentioned in Business Visa List (BVL) on the production of any of the following documents. Duration of each stay is for three months:

- Recommendation letter from Chamber of Commerce & Industries of the respective country of the foreigner
- Invitation letter from business organization duly recommended by the concerned Trade Organization / Association in Pakistan
- Recommendatory letter by Honorary Investment Counselor of BOI

Registration of foreigners with police

All foreigners who have been issued work visas shall be exempt from registration with the police, except for nationals of countries on the negative list.

Grant of Pakistan citizenship to foreign nationals

Laws and Rules which mainly govern the Policy and Procedures pertaining to Immigration are:

- Pakistan Citizenship Act, 1951
- Naturalization Act, 1926
- Pakistan Citizenship Rules, 1952

Source: Directorate General of Immigration & Passports, Ministry of Interior, Government of Pakistan
Choice of Investment Vehicle

A foreign investor / company, depending on the needs, can set up a Liaison Office, Branch Office or incorporate a Pakistani company as either a wholly owned subsidiary or joint venture with a Pakistani / Overseas partner. The formation of three common types of investment vehicles are discussed below:

Liaison office (LO)

Liaison Office is established by a foreign company for promotion of product(s), provision of technical advice and assistance, exploring the possibility of joint collaboration and export promotion. However LO cannot undertake any commercial/trading activities and is required to meet its operational expenses through remittances from its parent company through normal banking channel and converted to local currency account. A foreign company desirous of setting up a LO in Pakistan is required to obtain permission from the Board of Investment (BOI) by submitting an application on a specified format. The permission for opening of liaison office is granted by the BOI for an initial period of one year. Subsequent to initial permission, extension on an application is granted for a period of one to five years after reviewing the performance of the entity during the initial period.

Branch office (BO)

A foreign entity can operate in Pakistan by establishing a BO. A BO is set up specifically to execute contracts awarded to the foreign entity, accordingly activities are restricted to the extent stated in the signed agreement / contract. BO cannot indulge in commercial / trading activities.

Revenue generated / profit earned from BO activities can be repatriated to the Head Office, subject to payment of applicable taxes. Such repatriation should be in compliance with the procedures mentioned in the Foreign Exchange Regulations of the State Bank of Pakistan (SBP) through an authorized dealer (banker) under normal banking channels and tax regulations.

All expenses incurred on BO activities are required to be met either out of funds transferred from abroad through normal banking channel and converted to local currency account or from the amounts received through execution of the agreement / contract.

Setting up of LO / BO

A foreign company desirous of setting up a LO / BO in Pakistan is required to apply for permission to the BOI on a specified application format along with the prescribed documents / information.

The application process at least takes seven weeks after giving other relevant agencies opportunity for consultation. If comments from agencies are not received within the allocated period, the application is considered approved on a “no objection” basis.

Approval is granted for a period of maximum five years and renewal / extension is granted after fulfillment of all requirements specified in the rules.

Permission for opening of branches of foreign banks is granted by the SBP.

LO / BO is required to file prescribed returns / documents with the Companies Registration Office (CRO) in the city where principal place of business is situated within 30 days after obtaining permission from BOI.
Investment in Pakistan

Accounts of LO / BO

The requirements relating to preparation of accounts, audit and submission of accounts to CRO are also applicable to the LO / BO of a foreign company.

Incorporating a company

The companies incorporated in Pakistan are regulated by the Companies Act, 2017 (Companies Act) and the prescribed Rules, administered by the Securities and Exchange Commission of Pakistan (SECP).

Types of companies

The Companies Act mentions the following types of companies:
- Company limited by shares
- Company limited by guarantee
- Unlimited company

From a practical perspective, the limited liability company with share capital would be the type of company contemplated by a non-resident interested in investing in Pakistan.

A company incorporated in Pakistan, may either be a
- Private Company,
- Single Member Company; or
- Public Company. A public company can also be a listed company.

Companies are required to get themselves registered under the tax laws.

Private Company

A private company can be formed by two or more members and may commence its business immediately after its incorporation, unless a licence is required for the business activity.

A private company, through its Articles of Association:
- restricts its members to transfer shares
- limits the number of its members to fifty
- Prohibits any invitation to the public to subscribe for its shares or debentures.

Single-Member Company

An individual is entitled to obtain corporate status by forming a single member company and avail privileges of limiting the liability. The introduction of the concept of a single member company has facilitated sole proprietorships to obtain corporate status, giving them the privilege to limit the liability of their proprietors.

All the shares are vested with single member, however, he / she is required to nominate two individuals, one of whom shall become the nominee director in case of death of the single member and the other shall become the alternate nominee director to work in case of non-availability of the nominee director.

A single member company is required to appoint a qualified company secretary and to write “SMC” in addition to “Private Limited” with its name.

Public Company

A public company can be formed by three members or more. It is entitled to commence business after obtaining a Commencement of Business Certificate from the Registrar of Companies and license from the relevant authority if so required.

A public limited company should have a minimum of three members however there is no restriction with regard to maximum number of members and transferability of the shares.

Public companies have an option to get their securities listed on a stock exchange. For listing of securities on stock exchange, companies are required to follow the Listing Regulations. Minimum number of members for listing of a company is seven.

A listed company may buy back its own shares, subject to conditions specified in the Listed Companies (Buy-Back of Shares) Regulations, 2016.

Key differences between a private and a public company

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Private Company</th>
<th>Public Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum number of members (shareholders)</td>
<td>1 (Single member)</td>
<td>2 (Other private)</td>
</tr>
<tr>
<td>Maximum number of members (shareholders)</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Minimum number of directors</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Share transfer</td>
<td>Restricted</td>
<td>Restricted</td>
</tr>
</tbody>
</table>
Incorporation / registration of a company

One of the important functions of the SECP is the incorporation / registration of companies. This task has been entrusted to the Corporatization & Compliance Department, Company Law Division which has its field offices known as Company Registration Offices (CROs) for the purpose of incorporation / registration of different types of companies.

A process for incorporation of a company may either be carried out “online” or in “physical” form. The process of incorporation in either case is just the same, except in online filing, an account on “eservices” portal of SECP’s website needs to be established to run the process.

Summary of key steps to incorporate a company are highlighted below:

Creating an online account at e-SECP

A person intending to incorporate a company have to create an account with e-SECP (https://eservices.secp.gov.pk/eServices/) by signing up either as a “national” or a “foreigner” by entering requisite prescribed details. Once account has been set-up, SECP generates a “PIN Code” which is communicated through an email and SMS. The “User ID” is now the CNIC for Pakistani Nationals or the Passport No for Foreign subscribers.

To seek availability of the proposed name of the company:

After an eservice account has been created, an online application for “availability of name” ["AoN"] is electronically filed on payment of fee.

Generally, the name is made available within a day or two, which is communicated by an email.

Once AoN is made available, the subscribers to the memorandum of association, can start online incorporation process, if account for e-services is created, to generate, sign and submit the statutory forms.

Whereas in physical filing process, application for availability of name has to be filed physically along with requisite fee challan. The permission, which is made available in a day or two may either be collected personally from Company Registration Office ["CRO"] or else the CRO sends the permission by postal services, which may take additional two to three days.

To file prescribed documents with the Registrar:

The following documents are required to be filed with the registrar for registration of a company either physically or on-line:

<table>
<thead>
<tr>
<th>Documents to submit for incorporation of a company</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Copy of national identity card or copy of passport in case of foreigner, of each subscriber and witness to the memorandum and article of association</td>
</tr>
<tr>
<td>II. Memorandum and Articles of Association, duly signed by each subscriber in the presence of one witness.</td>
</tr>
<tr>
<td>III. Form-1: Declaration of applicant for compliance</td>
</tr>
<tr>
<td>IV. Form-21: Notice of situation of registered office of the company</td>
</tr>
<tr>
<td>V. Form-29: Particulars of first directors and chief executive of the company</td>
</tr>
<tr>
<td>VI. Original paid challan evidencing the payment of fee as prescribed</td>
</tr>
</tbody>
</table>

In case of a public company, following additional documents are to be submitted:

VII. Form 27 - List of persons consenting to act as directors

VIII. Form 28 - Consent of Directors

If subscriber is a non-resident and has executed Memorandum and Articles of Association outside Pakistan, in such case:

- The original signed copy of the memorandum and articles of association should be duly notarized by the Notary and attested by Pakistan Embassy/ High Commission/ Consulate in the country of execution.
- The undertaking, duly notarized and attested by Pakistan Embassy/ High Commission/ Consulate in the country of execution, along with bio-data of subscriber, copy of passport.

In case subscriber is a foreign company or body corporate, in such case, it has to file a board...
resolution, an undertaking, certificate of its incorporation; its memorandum and articles of association, all these documents should be duly notarized and attested by Pakistan Embassy/ High Commission/ Consulate in the country of execution, in addition company profile, list of directors, their residential address, passport number are also to be submitted.

Useful Link:

For online incorporation of a company, this link could be used: https://eservices.secp.gov.pk/eServices

Key corporate regulations

Some of the important aspects of company law are summarized below:

Memorandum and Articles of Association

A company is governed by its Memorandum of Association (MoA) and Articles of Association (AoA). The MoA primarily specifies the framework of company’s objectives (the principal line of business of the company should be stated at serial 1 of the object clause) and capital boundaries, whereas AoA transcribes rules for conducting its daily business in accordance with applicable laws, e.g., transfer and transmission of shares, mode of alteration in capital, holding of meetings, voting, powers and duties of directors and chief executive, distribution of dividends, capitalization of profits and reserves, preparation of accounts, winding up, etc.

Share Capital

The shares are moveable property of the member and are transferable in the manner provided in AoA.

A company having share capital shall issue only fully paid shares which may be of different kinds and classes as provided by its MoA and AoA.

Management

Directors

The management of companies is vested with the Board of Directors (BoD / Board). They may exercise such powers as are specified in the Companies Act and/or in its AoA.

The Companies Act has vested in Members certain powers, which cannot be exercised by the directors. The First directors are usually named in the AoA or are appointed by the subscribers to the MoA who shall remain in office until the first Annual General Meeting (AGM) within a certain number of days upon formation and commencement. Thereafter, directors are elected by the Members to hold office for a period of three years.

A single member company is required to have at least one director, whereas every other private limited company should have at least two directors. A public company is required to have at least three directors in case of an unlisted company and seven in case of a listed company. All directors must be natural persons.

Chief Executive Officer

Companies are required to appoint a Chief Executive Officer (CEO). The first CEO is determined by the subscribers to the memorandum of association and thereafter appointed within 14 days of the date of election of directors.

Meetings

Every public company having a share capital shall, within a period of 180 days from the date at which the company is entitled to commence business or within 9 months from the date of its incorporation whichever is earlier, hold a general meeting of the members of the company, to be called the “statutory meeting”. However in case the first Annual General Meeting (AGM) of a company is decided to be held earlier, no statutory meeting shall be required.

First AGM of the members is required to be held by every company not later than 16 months from the date of incorporation and subsequently once every calendar year within a period of 120 days from the close of its financial year.

A single member company is exempted from holding AGM.

Any general meeting, other than the AGM and Statutory meeting shall be called an Extraordinary General Meeting (EoGM). The Board, at any time, may call an EoGM to consider any matter that requires the approval of the company in a general meeting and shall, on the requisition of members representing not less than one-tenth of the voting power on the date of the deposit of the requisition, forthwith proceed to call an EoGM.

Directors may meet as many times as they require; however, Directors of a public company are required to meet at least once in each quarter of a year.
Accounts and Audit

Some of the important provisions of the Companies Act relating to financial statements and audit are summarized as follows:

Preparation and approval of Financial Statements

Every company is required to prepare and keep at its registered office books of account along with other books and papers and financial statements for every financial year.

In the case of a company engaged in production, processing, manufacturing or mining activities, it is also required to maintain record relating to utilization of material or labor or the other inputs or items of cost.

The financial statements shall give a true and fair view of the state of affairs of the company, comply with the financial reporting standards notified by the SECP and shall be prepared in accordance with the requirements contained in the Third Schedule of the Companies Act for different classes of companies.

The Board of every company must lay before the company in AGM its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements made up to the date of close of financial year adopted by the company.

Every listed company is required to prepare quarterly accounts within one month of the close of first and third quarter of its year of account and within two months of the close of the second quarter, and transmit the same to the Members and the stock exchange.

Directors’ report shall be prepared and attached to the financial statements for each financial year by the Board of every company except for private company, not being a subsidiary of public company, having the paid up capital not exceeding PKR 3 million.

The financial statements must be approved by the Board and signed on behalf of the Board by the CEO and at least one director of the company, and in case of a listed company also by the Chief Financial Officer.

Audit of Financial Statements

The first auditor is required to be appointed by the Board within 90 days from the date of incorporation and thereafter in each AGM of the company.

The financial statements shall be audited by the auditor of the company and the auditor’s report shall be attached thereto. However this provision is not applicable on private companies having the paid up capital not exceeding PKR 1 million.

A public listed company shall ensure that its half-yearly financial statements are subject to limited scope review by statutory auditor of the company.

Filing of Financial Statements

The financial statements shall be filed by the company with the registrar within 30 days from the date of such meeting in case of a listed company and within fifteen days in case of any other company. However this is not applicable on a private company having the paid up capital not exceeding PKR 10 million.

A private company, not being the subsidiary of public company, having the paid up capital not exceeding PKR 1 million is required to file the duly authenticated financial statements, whether audited or not, with the registrar within 30 days from the holding of such meeting.
Other filing requirements

The Companies Act requires the companies incorporated in Pakistan to file various statutory returns relating to meetings of Members, issuance and allotment of shares, appointment or change in particulars of directors, chief executive officer or the auditors, annual audited accounts, annual list of members etc. with the Registrar within the prescribed time limits.

Similarly, foreign companies (liaison offices and branch offices) are also required to file various statutory returns relating to their incorporation, principal place of business and particulars of directors and principal officer, etc. Foreign companies are also required to file with CRO the financial statements of their operations in Pakistan and their global accounts in prescribed manner.

The SECP monitors the affairs of entities under its purview. This is done through off-site monitoring of companies on the basis of reports and returns furnished by them as well as through on-site inspections of companies.

The effort is targeted at ensuring compliance of the regulated entities with applicable laws and regulations and protecting the interests of the investors, depositors and other stakeholders.

SECP has developed an e-Services portal that is an electronic data gathering and retrieval system to perform automated collection, acceptance and forwarding of submissions by companies who are required by law to file forms and documents with the SECP. Its primary purpose is to increase the efficiency of the corporate sector for the benefit of investors, companies, and the economy, by accelerating the receipt, acceptance and dissemination of time-sensitive corporate information filed with the SECP.

Main features of the system include online reservation of name, registration of companies, change in name and address of the company, online submission of annual, quarterly, and monthly returns by companies and tracking of complaints, etc.

Websites of companies

All the public companies, listed and unlisted, are required by SECP to maintain a functional website which contains detailed information about the company, its objectives, governance structure, election of directors, financial position as well as all material information to benefit its members, potential investors, and the general public.

Listed companies are required to place their financial statements and reports on their websites at least 21 days before holding the AGM. Whereas quarterly accounts should be placed within:

a) thirty days of the close of first and third quarters; and
b) sixty days of the close of its second quarter

Other Corporate Legislations, Regulations and Rules

Apart from Companies Act, there is a host of other Corporate Legislations, Regulations and Rules in force regulating different aspects of corporate entities. Key of them are enumerated as follows:

Banking Companies Ordinance, 1962

The Banking Companies Ordinance, 1962 specifies various regulations for banking companies, including:

- Licensing of banking companies
- Forms of business in which banking companies may engage and certain restrictions and prohibitions
- Requirement as to minimum paid-up capital and reserve
- Cash reserve
- Maintenance of liquid assets
- Deposits
- Annual accounts, audit and submission of returns
- Remittance of profits
- Suspension of business and winding up of banking companies

Prudential regulations

The SBP has introduced specific Prudential Regulations for Corporate / Commercial Banks, Small and Medium Enterprises Financing, Consumer Financing, Housing Finance, Micro Finance Banks / Institutions and Agriculture Financing.

The Prudential Regulations cover Risk Management, Corporate Governance and Operations.
Following are the important conditions prescribed in these prudential regulations for Corporate / Commercial Banks:

- Limit on exposure to a single person
- Limit on exposure against contingent liabilities
- Minimum conditions for taking exposure
- Limit on exposure against unsecured financing facilities
- Linkages between financial indicators of the borrower and total exposure from financial institutions
- Exposure against shares / TFCs and acquisition of shares
- Classification and provisioning for assets
- Payment of dividend
- Margin requirements
- Corporate governance, Board of Directors and management
- Credit rating
- Know your customer (KYC)
- Anti-money laundering measures
- Window dressing

**Non-Banking Finance Companies (NBFCs)**

NBFCs include companies licensed by the SECP to carry out any one or more of the business, namely; leasing, investment finance services, housing finance services, venture capital investment, discounting services, asset management services, investment advisory services and any other form of business Federal Government may specify.

**Private Funds Regulations, 2015**

The Regulations have been promulgated for the regulation of Private Equity and Venture Capital Fund Management Services and the registration and regulation of the Private Funds and connected matters.

A private fund is required to be established and launched by the Private Fund Management Company duly licensed by the Commission for managing Private Funds.

In a private fund:

- Total number of eligible investors should not exceed 30. The regulations define the eligible investor as a person who offers a minimum sum of PKR 3 million for investment in a private fund.
- Minimum equity should at least be PKR 30 million.
- Units are not listed on any Exchange.

**Real Estate Investment Trust (REIT) Regulations, 2015**

These regulate the activities of REIT Management Company (RMC) along with registration and regulation of REIT schemes and for matters connected therewith and incidental thereto.

REIT Scheme means a listed closed-end fund registered under these Regulations for investment in a real estate project:

The REIT Schemes are of following types:

- Development REIT Scheme - for construction of properties. The proposed construction period should not be more than 5 years.
- Rental REIT Scheme - for renting out completed projects. The project must have a successful tenant occupancy record for at least the last twelve months period with more than 80% occupancy at the time of application.
- Hybrid REIT Scheme - which has a Developmental component as well as a Rental component.
Investment in Pakistan

Real estate shall be within the territorial limits of Islamabad, Rawalpindi, Karachi, Lahore, Peshawar, Quetta, or any other city as may be approved by the SECP.

Paid up capital requirement for an RMC is PKR 50 million. RMC shall hold minimum five 5% and the strategic investor, collectively or individually, shall hold minimum 20% units of the REIT Scheme in an account marked as blocked throughout the life of the REIT Scheme till its winding up and these units shall not be sold, transferred or encumbered.

Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980

No Modaraba can be floated unless an authorization is obtained from the Registrar of Modaraba Companies under the provisions of this Ordinance.

No Modaraba shall undertake a business which is opposed to the injunctions of Islam and the Registrar shall not permit the floatation of a Modaraba unless the Religious Board has certified in writing that the Modaraba is not a business opposed to the injunctions of Islam.

Modaraba companies may be ‘Multi-purpose modaraba’ or ‘Specific purpose modaraba’ and can either be for a fixed period or for an indefinite period.

Insurance Ordinance, 2000 and Insurance Rules, 2002

Insurance Ordinance regulates the formation and activities of insurance companies. Insurance rules are issued in conjunction with Insurance Ordinance and contain detailed operational and reporting guidance and procedures.

A ‘public company’ or a ‘body corporate’ incorporated under the laws of Pakistan (not being a private company or the subsidiary of a private company) can commence insurance business after obtaining the permission from the Commission in the prescribed manner.

The Ordinance divides the Life Insurance business into following classes:

- Ordinary life business
- Capital redemption business
- Pension fund business
- Accident and health business

Non-life Insurance business is divided into following classes:

- Direct and facultative reinsurance business
- Fire and property damage business
- Marine, aviation and transport business
- Motor third party compulsory business
- Liability business
- Workers’ compensation business
- Credit and surety ship business
- Accident and health business
- Agriculture insurance including crop insurance
- Miscellaneous business
- Treaty reinsurance business
- Proportional treaty business
- Non-proportional treaty business

An insurer carrying on life insurance business shall at all times maintain at least one statutory fund in respect of its life insurance business.

Reinsurance between statutory funds maintained by one insurer is prohibited.

Takaful Rules 2012

These rules have been promulgated under the Insurance Ordinance, 2000.

Takaful refers to Islamic way of insurance. Takaful business can only be carried out by ‘Registered Insurer’ authorized in this behalf by the Commission. A Registered insurer registered to transact life insurance business shall be eligible for conducting ‘Family Takaful’ whereas Registered Insurer registered to transact non-life insurance business shall be eligible to transact ‘General Takaful’. Window Takaful Operator means registered Insurer authorized by the Commission to carry out both Takaful Business as well as Conventional Insurance Business.

A Takaful operator carrying out Family Takaful business shall set up one or more statutory funds which are further divided into sub-funds including Participant Takaful Fund, Participant Investment Fund and Operator sub-fund.
A Takaful operator carrying out General Takaful business shall set up one or more Participant Takaful Fund and Operator Fund.

A Takaful operator is required to appoint a Sharia Advisor who shall be responsible for:

- Approval of products including related documentation
- Approval of Participant Takaful Fund policy including risk management and rating procedures
- Approval of investment policy and individual investments by the Operator
- Approval of re-insurance and re-takaful arrangements

A Takaful Operator is also required to appoint a Sharia Compliance Auditor to conduct audit for each accounting period.

The rules also stipulate regulations to Takaful Operators for investment in immovable properties, investment in joint stock companies, mutual funds, redeemable capital and placement of excess funds with banks and Islamic financial institutions.

**Listing of companies and securities regulations**

A company that seeks to offer its shares to the public and wishes to apply for a listing on the stock exchange must comply with the provisions of Listing of Companies and Securities Regulations as are contained in the Rule Book of Pakistan Stock Exchange Limited, in addition to compliance with the provisions of the Companies Act.

The Listing Regulations require that no company shall be listed unless:

- It is registered as a public limited company
- Its minimum paid-up capital is PKR 200 million
- It has made a public issue which is subscribed by not less than 500 applicants

**Offer of capital by companies / modarabas to the General Public:**

In case of offer of capital by the issuing company through IPO or offer for sale, the allocation to General Public shall be as under:

For companies seeking listing:

- In case post-issue paid-up-capital of the company is up to PKR 500 million, the allocation of capital to the general public, excluding premium amount and pre-IPO placement, if any, shall not be less than 25% of the post-issue paid-up capital of the company.
- In case post-issue paid-up-capital of the company is above PKR 500 million, the allocation of capital to the general public, excluding premium amount and Pre-IPO placement, if any, shall be at least PKR 125 million or 12.5% of the post-issue paid-up-capital, whichever is higher. Such company, will however, be required to subsequently enhance the quantum of public shareholding to 25% within next four years of its listing.

For existing listed companies:

- In case of an already listed company, the size of offer of capital shall not be less than PKR 100 million.
- The listed companies having existing free float less than the required level i.e., 25% of the total issued shares and 5 million free float shares; are required to enhance their free float up to both these levels within the given timeframe.

**Code of Corporate Governance**

The objective of Code of Corporate Governance is to establish and ensure a framework of good corporate governance practices for the companies.

SECP has issued corporate governance frameworks for designated classes of companies for mandatory compliance including listed companies, public sector companies and insurance companies. Besides, corporate governance principles for non-listed companies have also been issued for guidance and voluntary compliance.

Code of Corporate Governance broadly covers the matters relating to composition, responsibilities, power and functions of Board, meetings of the Board, qualifications of CFO and head of internal audit, frequency of financial reporting, internal audit, external auditors, audit committee, and corporate and financial reporting framework.
Foreign exchange regulations

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons/companies doing business in Pakistan for all purposes under the rules which have been clearly defined by SBP. There are no restrictions on availability of foreign currency for imports (except for import of banned items or for imports from Israel). Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports, royalty, franchise/technical fees and dividends (as subsequently described in detail), software licenses/maintenance/support fee, advertisement abroad in newspapers and magazines, business travel etc.

Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

Issuance of share certificates to foreign investors

SBP has given general permission to non-residents to purchase shares of Pakistani companies quoted on the stock exchange irrespective of the nature of their business, and shares of those private companies which are engaged in manufacturing, power generation and approved segments of service sectors. This facility is available to the following categories of non-residents, subject to payment being made in foreign currency and the price being not less than breakup value as certified by a practicing Chartered Accountant in the case of unlisted shares and the market price in case of quoted shares:

- A Pakistan national resident outside Pakistan.
- A person who holds dual nationality including Pakistan nationality, whether living in or outside Pakistan.
- A foreign national, whether living in or outside Pakistan.
- A firm (including a partnership) or trust or mutual fund registered and functioning outside Pakistan, excluding entities owned or controlled by a foreign government.

Remittance of dividend

Companies are required to nominate a bank through which they would like to make remittance of dividends to non-resident shareholders. On receipt of nomination of a bank from the company, SBP authorizes the concerned bank to effect remittance of dividends to the non-resident shareholders of the company without its prior approval.

Royalty and technical fee

Manufacturing sector

The SBP has laid down certain conditions for remittance of Royalty and Technical Fee by the manufacturing sector to facilitate the execution of agreements for transfer of technology. The local firm would designate any of the Authorized Dealers (Banks) in foreign exchange in Pakistan, through whom payments will be made.

Non-manufacturing sector

Payment of royalty, franchise/technical fee by the non-manufacturing sector opened for foreign direct investment like International Food Franchises is
Investment in Pakistan

Investment in Pakistan is permissible, subject to the maximum limit of USD 100,000 as the initial lump-sum payment, irrespective of number of outlets, and maximum 5% of net sales. The initial period for which such fees will be allowed should not exceed five years.

Financial sector

Remittance of royalty / franchise and technical fee or commission / service charges for the financial sector may be allowed by the SBP, on case-to-case basis, in respect of foreign collaborator's branded financial products / services. The one-time lump sum up-front royalty / technical fee / franchise fee should not exceed USD 500,000. Continuing payments should not exceed 0.25% of customers billing.

Foreign currency borrowing for plant and machinery

Private foreign currency loans

Private sector entrepreneurs are permitted to obtain foreign currency loans from banks / financial institutions abroad, parent companies of the multinationals and as suppliers' credit, not involving government guarantee, for financing foreign currency cost of the projects covered by the government's industrial and investment policies. The repayment period of such loans / credit should not be less than five years. Loan agreements and repayment schedules are registered with SBP which enables banks to allow remittance of interest and loan instalments, after deduction of applicable tax, without further approval of SBP.

Other foreign private loans - any purpose

Individuals, firms, companies resident in Pakistan, including foreign controlled companies and branches of foreign companies but excluding banks, may obtain foreign currency loans from abroad on a repatriable basis for any purpose subject to Foreign Exchange regulations.

Short term foreign private loans

Repatriable foreign currency loans by foreign controlled companies for working capital.

Foreign controlled companies (i.e. branches of foreign companies and companies incorporated in Pakistan with 50% or more foreign shareholding, or 50% or more directors of foreign nationality) are allowed to contract foreign currency loans from banks / financial institutions abroad or from their HO or from other overseas branches / associates abroad for meeting their working capital requirements, subject to the conditions that the repayment period should not exceed 12 months and the interest should not exceed 1% over LIBOR. Such loans can however be rolled over for further periods not exceeding 12 months each (branches of foreign companies are not allowed to pay interest on such loans).

Foreign currency loans for working capital by Pakistani firms

Pakistani firms and companies functioning in Pakistan, excluding banks, may obtain foreign private loans on non-repatriable or repatriable basis.

Prepayment of foreign private loans

The SBP allows prepayment of foreign private loans (other than the Government guaranteed loans), on a case-to-case basis. This facility can be availed by those borrowers who have the Rupee counterpart available with them or they have the capacity to generate Rupee funds themselves.

Possession of foreign currency

There is no restriction on residents and non-residents on bringing in, and holding foreign currency. However, there is a ceiling of USD 10,000 on taking foreign currency out of Pakistan.

Foreign currency accounts (FCA)

Subject to certain conditions specified in the Foreign Exchange Manual, companies and individuals are allowed to maintain foreign currency accounts with banks in Pakistan.
Local borrowings by foreign controlled companies

Lending to foreign controlled companies for working capital

Authorized dealers are allowed to grant Rupee loans and credits to foreign controlled companies for meeting their working capital requirements.

Lending to foreign controlled companies for capital expenditure

Foreign controlled companies engaged in manufacturing are allowed to obtain Rupee loans for meeting their capital expenditure requirements from banks, development financial institutions and other financial institutions or by issuing Participation Term Certificates, etc. However, other foreign controlled companies require special permission to obtain medium and long-term Rupee loans.

Loans against guarantees of non-residents

Authorized dealers have general permission under the Foreign Exchange Regulations to grant Rupee loans to their clients (including foreign controlled companies) against guarantees of non-residents / guarantees received from banks functioning abroad subject to compliance with the Prudential Regulations of SBP.
Merger

Merger is a combination of two or more companies into a single company in which one company survives and the other loses its corporate existence. The survivor acquires the assets as well as the liabilities of the merged company.

Acquisition

An acquisition is a transaction where one of the enterprises, the buyer, obtains control over the net assets and operations of another enterprise, the seller, in exchange for the transfer of assets or issue of equity.

Mode of acquisition

A business entity can be acquired in its entirety either by way of an asset deal or a share deal.

Asset deal

Under an asset deal, the buyer directly acquires the assets and liabilities from the seller. The transaction may involve buying of all or selected assets / liabilities of the seller.

Share deal

Under a share deal, the buyer acquires the shares in the corporate entity. The share deal is generally less complex and time consuming than the asset deal.

Benchmark level of control

The most important factor in formulating the strategy for acquisition is to determine the level of control desired by the acquirer. The benchmark levels of control that are generally relevant for an investor are as follows:

- Shareholding higher than 25% provides shareholder the power to block / veto a special resolution, which requires 75% or more votes. Special resolutions are required for important business matters to be approved by shareholders e.g., investment in associated companies, changes in articles and memorandum, removal of chief executive, voluntary winding up, etc.
- Shareholding higher than 50% generally enables the beneficial owner to elect more than 50% of the board of directors and to appoint a chief executive of its choice, thus enabling day to day management control.
- Shareholding higher than 75% is generally the maximum that is needed to execute all decisions, including special resolutions. It is the converse of the 25% + benchmark.

Substantial acquisition of voting shares and takeover of listed companies

In order to provide fair and equal treatment to all the investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies and matters ancillary thereto or connected therewith, SECP has promulgated the following legal framework:

- The Securities Act, 2015 (Part IX); and
- The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017.
Takeover laws and regulations are intended to minimize price manipulation and insider trading. Following is the summary of some important sections of the Part IX of the Securities Act:

**Acquisition of more than 10% voting shares of a company but up to 30%**

Any person who acquires voting shares in a listed company as a result of which his aggregate holding exceeds 10% of the voting shares, must disclose the aggregate shareholding to the said company and to the stock exchange on which those shares are listed, within two working days of,

a) the receipt of intimation of allotment of voting shares; or

b) the acquisition of voting shares, as the case may be

Any additional acquisition by the above person during the next 12 months needs not be disclosed until such time as the shareholding does not cross 30%.

Simply, the disclosure is triggered on crossing the 10% voting rights threshold of a listed company. Any further purchases in the 12 months thereafter, up to 30% of the voting rights need not be disclosed.

**Additional acquisition of voting shares – beyond 30% (Substantial Acquisition)**

When the acquirer plans to cross the 30% threshold or gain control of a listed company, he is required to make a public announcement of offer to acquire additional voting shares or control of such company; before making the announcement, such person shall make requisite disclosures as mentioned above.

**Typical steps of a business acquisition**

Acquisition of an entity may involve various steps depending on the nature, size, and complexity of the transaction and the target entity. Following are the typical phases of acquisition of an entity:

- Signing of Letter of Intent / Memorandum of Understanding between the potential buyer and the seller
- Seeking required regulatory approvals
- Undertaking financial, legal, commercial and operational due diligence
- Assessing value and negotiating price
- Signing of Sale and Purchase Agreement
- Closing the deal

The intended buyer and seller usually engage financial consultants and legal advisors to assist them on various phases of merger and acquisition transactions, particularly: to perform due diligence; assess business value, transaction structuring; and to assist on legal matters.
## Minimum Offer Price

The public announcement of offer to acquire shares, under Section 111 of the Securities Act 2015 read with Regulation 13 of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017, shall be at the price which is highest among the following:

<table>
<thead>
<tr>
<th>If the shares are frequently traded</th>
<th>If the shares are not frequently traded</th>
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<tbody>
<tr>
<td>a) The negotiated weighted average price (including total consideration paid, the liabilities settled, personal liabilities of sellers and consideration paid) under share purchase agreement(s) for the acquisition of voting shares of the target company.</td>
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</tr>
<tr>
<td>b) The highest price paid by the acquirer for acquiring the voting shares of Target Company during six months prior to the date of public announcement of offer.</td>
<td>b) The highest price paid by the acquirer for acquiring the voting shares of Target Company during six months prior to the date of public announcement of offer.</td>
</tr>
<tr>
<td>c) The weighted average share price of Target Company as quoted on the securities exchange during the last six months preceding the date of announcement of public offer.</td>
<td></td>
</tr>
<tr>
<td>d) The weighted average share price of Target Company as quoted on the securities exchange during four weeks preceding the date of public announcement of intention.</td>
<td></td>
</tr>
<tr>
<td>e) The price per share arrived at on the basis of net assets value carried out by a Chartered Accountant firm based on audited financial data not older than six months from the date of public announcement of offer made by the manager to the offer. In case of fixed assets, being part of total assets, the Chartered Accountant firm shall obtain the services of a valuer to carry out value of fixed assets, whose name appears on the list of panel of valuers maintained by Pakistan Banks’ Association.</td>
<td>c) The price per share arrived at on the basis of net assets value carried out by a Chartered Accountant firm based on audited financial data not older than six months from the date of public announcement of offer made by the manager to the offer. In case of fixed assets, being part of total assets the Chartered Accountant firm shall obtain the service of a valuer to carry out value of fixed assets, whose name appears on the list of panel of valuers maintained by Pakistan Banks’ Association.</td>
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</table>

**Note:** shares shall be deemed to be frequently traded if:

- They have been traded for at least 80% of the trading days during the six months, prior to the date of public announcement of offer, and
- Their average daily trading volume in the ready market is not less than 0.5% of its free float or 100,000 shares, whichever is higher.
Other Provisions

In addition, following are the important provisions of takeover laws:

- disclosures by the target company on possibilities of its acquisition to the stock exchange.
- timing of public announcement of intention and of offer to purchase shares of the target company beyond the specified threshold, appointment of manager to the offer, contents of public offering documents, etc.
- procedures for withdrawal of public announcement of intention and of offer for purchase of shares.
- size of offer, minimum offer price, mode of payment to shareholders on acquisition of shares.
- form / nature of security for performance of obligation under the public offer.
- obligations of acquirer, board of directors of the target company, manager to the offer.
- other procedural matters including penal provisions, reporting requirements, and powers of SECP in the area of substantial acquisitions.

Tax considerations for Mergers and Acquisitions

The buyer and seller may need to consider following tax aspects:

Treatment of gain on disposal of assets / issue of shares

- No gain or loss shall be taken to arise on disposal of assets from one company to another company and no gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of operation of a Scheme of Arrangement and Reconstruction under Sections 282L and 284 to 287 of the Repealed Companies Ordinance, 1984 (now section 279 to 282 of the Companies Act 2017) or Section 48 of the Banking Companies Ordinance, 1962, if the conditions stipulated in the tax laws are satisfied.

Treatment of capital gain

- In case of share deal, where individual shareholders (sellers) receive cash in consideration of sale of their investments in the target company that result in gain (capital gain) in the hands of the sellers:
  - if the target company is a listed company, capital gain is taxed at zero percent if security was acquired before 1 July 2013. In case otherwise, capital gain shall be taxable at the rates applicable for given tax year keeping in view the period of holding.
  - if the target company is an unlisted company and the holding period of investment in the hands of the sellers is:
    - less than one year: gain on sale of shares is 100% taxable at rate applicable keeping in view type of seller.
    - is more than one year: 25% of the gain is exempted from tax and 75% is taxable at rate applicable on seller.

Treatment of carry forward losses

- Any assessed loss (excluding capital losses) for the tax year (i.e. not including brought forward losses) of an amalgamating company or companies shall be set off against business profits and gains of the amalgamated company, and vice versa, in the year of amalgamation. Any unadjusted loss shall be carried forward up to six tax years succeeding the year of amalgamation. The set off is subject to continuation of the business of the amalgamating company for at least five years.

- In the case of amalgamation of banking companies or non-banking finance companies, modarabas or insurance companies, accumulated business losses, except speculation business losses of an amalgamating company or
companies, shall be set and carried forward against business profits and gains of the amalgamated company and vice versa for up to six tax years immediately succeeding the tax year in which the loss of the amalgamated company or amalgamating company or companies were first computed.

**Competition Law**

The Competition Act, 2010 requires that where an undertaking intends to acquire the shares or assets of another undertaking, or two or more undertakings intend to merge the whole or part of their businesses, and meet the pre-merger notification thresholds stipulated in regulations prescribed by the Competition Commission, such undertaking or undertakings shall apply for clearance from the Competition Commission of the intended merger.

Briefly, the law prohibits situations that tend to lessen, distort or eliminate competition such as actions constituting an abuse of market dominance, competition restricting agreements and deceptive market practices. Although essentially an enabling law, it briefly sets out procedures relating to review of mergers and acquisitions, enquiries, imposition of penalties, grant of leniency and other essential aspects of law enforcement.

**Recent merger and acquisition transactions in Pakistan**

<table>
<thead>
<tr>
<th>Target Name</th>
<th>Sector</th>
<th>Acquirer Name</th>
<th>Stake</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-Electric Limited</td>
<td>Power &amp; Energy</td>
<td>Shanghai Electric Power Company Ltd.</td>
<td>66.40%</td>
<td>2016</td>
</tr>
<tr>
<td>Dawlance companies</td>
<td>Manufacturing</td>
<td>Arducht B.V, subsidiary of Arçelik A.S.</td>
<td>100%</td>
<td>2016</td>
</tr>
<tr>
<td>Brainchild Communications (Pvt.) Limited</td>
<td>Communication</td>
<td>Brainchild Communications Singapore PTE Limited</td>
<td>52.20%</td>
<td>2016</td>
</tr>
<tr>
<td>HASCOL Petroleum Limited</td>
<td>Oil &amp; Energy</td>
<td>Vitol Dubai limited</td>
<td>15%</td>
<td>2016</td>
</tr>
<tr>
<td>PICIC Asset Management Company</td>
<td>Financial Services</td>
<td>HBL Asset Management Company</td>
<td>100%</td>
<td>2016</td>
</tr>
<tr>
<td>NRSP Microfinance Bank</td>
<td>Financial Services</td>
<td>Kreditanstalt FUR Wiederaufbau</td>
<td>100%</td>
<td>2016</td>
</tr>
<tr>
<td>Engro Foods Limited</td>
<td>Food</td>
<td>Friesland Campina Pakistan Holding B.V.</td>
<td>51%</td>
<td>2016</td>
</tr>
<tr>
<td>BHP Petroleum (Pakistan) (Pvt.) Limited</td>
<td>Oil &amp; Energy</td>
<td>Tri-Resources Investment Inc.</td>
<td>100%</td>
<td>2015</td>
</tr>
<tr>
<td>Singer Pakistan Limited</td>
<td>Manufacturing</td>
<td>Poseidon Synergies (Pvt.) Limited.</td>
<td>29.95%</td>
<td>2015</td>
</tr>
<tr>
<td>Nizam Energy (Pvt.) Limited</td>
<td>Oil &amp; Energy</td>
<td>Aucmen Fund Inc.</td>
<td>15.80%</td>
<td>2015</td>
</tr>
<tr>
<td>Noon Pakistan Limited</td>
<td>Food</td>
<td>Fauji Fertilizer Bin Qasim Ltd. and Fauji Foundation</td>
<td>51%</td>
<td>2015</td>
</tr>
<tr>
<td>TPL Direct Insurance Limited</td>
<td>Insurance</td>
<td>Greenoaks Global Holdings Limited</td>
<td>75%</td>
<td>2014</td>
</tr>
<tr>
<td>Chevron Pakistan Limited</td>
<td>Manufacturing</td>
<td>PARCO Pakistan Limited</td>
<td>100%</td>
<td>2014</td>
</tr>
<tr>
<td>HUM Network Limited</td>
<td>Communication</td>
<td>THS Kingsway Fund</td>
<td>24.99%</td>
<td>2014</td>
</tr>
<tr>
<td>UCH-I Power (Pvt.) Limited</td>
<td>Power &amp; Energy</td>
<td>Oasis International Power LLC.</td>
<td>30%</td>
<td>2013</td>
</tr>
<tr>
<td>Hilton Pharma (Pvt.) Ltd.</td>
<td>Health care</td>
<td>GlaxoSmithKline Pakistan Limited</td>
<td>100%</td>
<td>2013</td>
</tr>
</tbody>
</table>

Sources: - Competition Commission of Pakistan
- Pakistan Stock Exchange
**Income tax**

The Income Tax Ordinance, 2001 (hereinafter referred to as “the Ordinance”) is the tax code of Pakistan with effect from 1 July 2002, which governs the taxation of income. The procedures thereof are mainly contained in the Income Tax Rules, 2002. The financial policies and taxation measures are annually announced in accordance with the policies of Government and a Finance Act to this effect is promulgated.

**Tax year**

"Tax Year" means the period of 12 months ending on 30 June in respect of which assessment of income will be made. Where the accounting period (income year) of a person is different from the normal tax year or the person has been allowed by the Commissioner of Inland Revenue to use a period of 12 months other than the normal tax year, such a tax year will be called “Special Tax Year” and will be denoted by the calendar year in which the closing date of the special tax year falls.

**Legal status of the tax payer**

A tax payer under the Ordinance may have any of the following status for charge of tax:

- **Individual**

- **Company or Association of Persons (AOP)**

- **Federal Government, Foreign Government, a political sub-division of a Foreign Government or Public International Organization**

The term “Association of Persons” includes a firm, a Hindu undivided family, any artificial juridical person and a body of persons formed under a foreign law.

**Residential status**

The total income chargeable to tax under the Ordinance is determined with reference to the residential status of the taxpayer as follows:

- A resident person is chargeable to tax in Pakistan for both Pakistan source income and foreign source income.

- A non-resident is chargeable to tax in Pakistan only to the extent of Pakistan source income.

**Residency test**

**Individual**

An individual is considered to be a resident in respect of a tax year if his aggregate stay in Pakistan is 183 days or more during that tax year; or he is an employee or official of the Federal Government or a Provincial Government, posted abroad in the tax year.

**Company**

A company is considered resident for a tax year if it is incorporated or formed by or under any law in force in Pakistan or the control and management of its affairs is situated wholly in Pakistan at any time in the year or if it is a Provincial Government or a Local Government in Pakistan.

**Association of persons**

An association of persons is considered resident for a tax year if the control and management of its affairs is situated wholly or partly in Pakistan at any time in the year.
Heads of income

Total income of a taxpayer can be charged to tax under any of the following heads:

- Salary
- Income from property
- Income from business
- Capital gains
- Income from other sources

Salary

Salary received by an employee in a tax year, other than exempt salary, shall be chargeable to tax in that year under the head “Salary”. For the purposes of computing salary liable to tax, the value of perquisites, allowances and benefits are determined in accordance with the prescribed rules. Salary income is subject to a progressive tax rate depending on the amount of salary, ranging from 2% to 30%.

Foreign source income

If an individual, due to his employment becomes resident in Pakistan and his presence in Pakistan is for a period or periods not exceeding three years, his foreign income will not be taxed, unless this income is derived from a business established in Pakistan or it is brought or received in Pakistan.

Foreign source income of a resident (who is a citizen of Pakistan but was not resident in any of the four tax years preceding the tax year in which he became resident) shall be exempt from tax for two years, that is to say, in respect of the tax year in which he became resident and the next following tax year.

Any foreign source salary received by a resident individual is exempt from tax, if the individual has paid foreign income tax in respect of the salary. Any foreign source salary earned by an individual (who is a citizen of Pakistan) during the tax year in which he leaves Pakistan and remains abroad, is exempt from tax.

Income from property

Income from property includes rent received or receivable for a tax year, other than exempt rent, by the owner of land or a building as a consideration for the use or occupation of the said property. Specified deductions are allowed only to a company in computing income under the head income from property.

Income from business

Income from business or profession is taxed under the following regimes:

- Normal Tax Regime (NTR)
- Final Tax Regime (FTR)

Normal tax regime

Under the NTR, taxable income of the taxpayer is determined after reducing the related allowable expenses, out of which some of the important allowable expenses are discussed below:

- Depreciation allowance
  
  The Ordinance provides for depreciation to be allowable on the assets used in a business during a tax year. A transfer or export of the asset out of Pakistan shall be treated as a disposal of that asset and the cost of the asset shall be deemed to be the consideration received for that asset.

- Initial allowance
  
  In respect of an eligible depreciable asset, which has been placed into service in Pakistan for the first time in a tax year, a deduction namely “initial allowance” is available at the rate of 25% of the cost of plant and machinery and 15% of the cost of building.

- First Year Allowance (FYA)
  
  FYA of 90% of cost, in lieu of the initial allowance of 25% is allowed on plant, machinery and equipment installed and used by any industrial undertaking set up in specified rural and underdeveloped areas or installed for generation of alternate energy by an industrial undertaking set up anywhere in Pakistan.

- Intangibles
  
  An amortization deduction is allowed for the cost of intangibles having useful life of more than one year, used wholly or partly for deriving income from business.
Investment in Pakistan

Head office expenditure

Head office expenditure is allowed to a non-resident operating through a branch in Pakistan. This expense is generally allowed in the ratio of Pakistan turnover to global turnover of the entity.

Apportionment of expenses

The rules provide that expenditure incurred for a particular class of income can only be allocated to that class. Further any common expenditure incurred for deriving more than one head of income shall be allocated to each class in the same proportion, which the gross receipts from that class of income bear to the total gross receipts from all classes of income.

Tax liability

The standard tax rate for companies for the tax year 2018 and onwards is 30%. Whereas, a small company, as defined in the Ordinance, is taxed at 25%. A society or a cooperative society is taxed at the rates applicable to a company.

The total income of a Modaraba, other than dividend income or income falling under the FTR, is taxable at 25%.

Tax Credits

Tax credits in the range of 10 to 20 percent have been provided to existing companies for investment in expansion, extension and Balancing Modernization and Replacement (BMR) of plant and machinery. For investment in plant and machinery through new equity, tax credit up to 100% is provided.

Exemption from tax up to ten years is given for investment in special zone.

Final Tax Regime (FTR)

Under the FTR, the tax deducted or collected at source is deemed to be final tax in respect of income from sources chargeable under FTR. The amount chargeable to tax on gross receipt basis cannot be reduced by:

- Any deductible allowance; or
- Set-off of any loss; or
- Any tax credits available under the Ordinance.

Following is a brief overview of the sources of income, which are chargeable to tax under FTR.

Dividends paid by a company

Every person who receives dividend, other than dividend exempt from tax, from a company is chargeable to tax at different rates ranging from 7.5% to 25% on gross receipt basis depending upon the status of the payer and payee of the dividend.

Payment of ‘Royalty’ and ‘Fee for Technical Service’

Where a non-resident person receives any Pakistan-source royalty or fee for technical services, tax at the rate of 15% shall be charged on the gross amount of royalty or technical fee. However, the following receipts are not chargeable under FTR:

- Any royalty, where the property or right giving rise to the royalty is effectively connected with a permanent establishment in Pakistan of the non-resident person.
Any fee for technical services, where the services giving rise to the fee are rendered through a permanent establishment in Pakistan of the non-resident person.

Any royalty or fee for technical services, which is exempt under the Ordinance.

Any Pakistan source royalty or fee for technical services received by a non-resident person to whom presumptive taxation does not apply will be treated as “Income from Business” attributed to the permanent establishment in Pakistan of the non-resident person.

Shipping and air-transport income of non-residents

Every non-resident person carrying on the business of operating ships or aircraft as the owner or charterer is chargeable to tax as follows, unless the income is exempt from tax:

- In case of shipping income, 8% of the gross amount received or receivable, or
- In case of air transport income, 3% of the gross amount received or receivable.

Income of certain importers

The Ordinance provides for collection of advance tax at import stage by Collector of Customs at 5.5% (8% for non-filer) from industrial undertakings and companies, and at 6% (9% for non-filer) from every other importer on import of goods based on the value of goods as determined under the Customs Act, 1969. The tax collected shall be final tax on income of importer arising from imports except where goods are imported by an industrial undertaking as raw material, plant, machinery and equipment for own use.

Sale of goods and execution of contracts

The gross receipts on account of sale of goods and execution of contracts are covered under FTR subject to certain conditions. The tax rate on certain supplies and execution of contracts are given below:

Where the recipient is a resident

- Payment on account of sale of rice, cotton seed oil or edible oil at 1.5%. Payment on account of supply of fast moving consumer goods by distributors at 2% for company and 2.5% for persons other than company. Payment on account of sale of any other goods to companies at 4% for filer and 7% for non-filer and to persons other than companies at 4.5% for filer and 7.75 for non-filer. However, sale of own manufactured goods by a company falls outside the ambit of FTR. Sale of goods whether own manufactured or otherwise by a listed company is also excluded from FTR.

- Payment on account of execution of contracts to companies at 7% for filer and 12% for non-filer and to persons other than companies at 7.5% for filer and 12.5% for non-filer, except for contract for the sale of goods or the rendering of services. However, tax deducted on payments for execution of contracts by a listed company is excluded from FTR.

Where the recipient is a non-resident, on execution of:

- A contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project at 7% for filer and 13% for non-filer.

- Any other contract for construction or services rendered relating thereto at 7% for filer and 13% for non-filer.

- A contract for advertisement services rendered by Television Satellite Channels at 7% for filer and 13% for non-filer.

- Non-resident contractors do not fall under FTR, unless they opt for FTR.

Income of exporters

The Ordinance provides that tax shall be deducted or collected at 1% as final tax on the income arising from export or sale to an exporter.

Income of service providers

Tax deducted from payments made for services is treated as minimum tax. The rate of tax deduction on payment for services rendered by companies is 8% for filers and 14.5% for non-filers whereas for services rendered by other persons it is 10% for filers and 17.5% for non-filers.
Income from prizes and winnings

The gross amount of every prize on a prize bond and cross word puzzle is subject to withholding tax at 15% for filer and 25% for non-filer, whereas gross amount of winning from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale, is subject to withholding tax at 20% which would be considered as final discharge of tax liability in case of filers.

Brokerage & commission income

Tax shall be deducted or collected at different rates ranging from 8% - 16% from gross amount of brokerage & commission depending upon the nature of services provided by the agent and his filer or non-filer status, which would be considered as final discharge of tax liability in case of filers.

Services to an exporter / export house

Income of a resident person arising on account of rendering / providing of services, such as stitching, dyeing, printing, embroidery, washing, sizing and weaving to an exporter or an export house is subject to tax at 1%.

Insurance / re-insurance premium

Insurance / re-insurance premium received by a non-resident insurance / re-insurance company is taxable at 5% of gross amount thereof which is treated as final tax.

Minimum tax based on turnover

If no tax is payable or paid, by a resident company, an individual having turnover of PKR 10 million or above in tax year 2017 onwards, an AOP having turnover of PKR 10 million or above in tax year 2017 onwards, for a tax year or the tax payable or paid by the person for a tax year is less than 1.25% of the amount representing the person’s turnover from all sources for that year (other than FTR turnover), the aggregate of the person’s turnover for the tax year, shall be treated as the income of the person and shall be taxed as described in the following table:

<table>
<thead>
<tr>
<th>Where no tax is payable or paid</th>
<th>An amount equal to 1% of turnover.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where tax payable or paid is less than 1.25% of turnover</td>
<td>An amount representing the difference between tax payable or paid and 1.25% of turnover.</td>
</tr>
</tbody>
</table>

Exemptions and reduced rate of minimum tax have been provided for certain persons. Furthermore, minimum tax paid can be carried forward for set off against future tax liability for five tax years, immediately succeeding the tax year for which the amount was paid.

Alternative Corporate Tax (ACT)

A company is required to discharge its liability at higher of corporate tax or ACT. Corporate tax means higher of tax payable at corporate rate or minimum tax. ACT means tax at the rate of 17% of accounting profit before tax as disclosed in financial statements net of certain specified adjustments.

ACT in excess of corporate tax can be carried forward for set off against future tax liability for ten years, immediately succeeding the tax for which the ACT was paid.

ACT is not applicable on banking companies, insurance companies, and companies engaged in exploration and production of petroleum or other mineral deposits.

Super Tax

‘Super tax for rehabilitation of temporarily displaced persons’, is applicable for tax year 2015, 2016 and 2017. The rate of super tax is 4 percent on income of banking companies and 3 percent on income of person other than banking companies (including individual and Association of Persons) having income equal to or exceeding PKR 500 million in the tax year.

“Income” has been specifically defined for the purpose of charging super tax.

Treatment of previous years’ losses

Loss under a head of income, except speculation loss and capital loss, can be set off against income under any other head except income under the head salary and income from property only for that year in which loss was sustained. In case of a business loss, which cannot be fully set off in a tax year, it can be carried forward up to six tax years immediately succeeding the tax year in which the loss was first computed. Business losses can be carried forward indefinitely for industrial undertaking set up in Export Processing Zones. Foreign losses can be set off only against foreign income.

Unabsorbed tax depreciation and initial allowance on tangible assets and unabsorbed amortization of intangibles can be carried forward to succeeding years, until completely set off.
Investment in Pakistan

In case of speculation and / or capital losses, unabsorbed losses can be carried forward up to six tax years and can only be adjusted against income from the same head in which the loss was sustained and not against income under any other head.

**Group relief**

A subsidiary company may surrender its assessed loss in proportion of share capital held by its holding company, excluding capital loss, for the tax year (other than brought forward losses and capital losses) to its holding company or its subsidiary or between another subsidiary of its holding company (collectively referred to as ‘group’) provided that the holding company shall directly hold at least:

- 55% of the subsidiary’s share capital, where one of the group companies is listed, or
- 75% of the subsidiary’s share capital, where none of the group companies is listed.

Loss surrendered by the subsidiary may be claimed by the holding company or another subsidiary for set off against its business income in the tax year and the following two tax years, subject to the conditions specified in the Ordinance.

Moreover, the subsidiary shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years; and where the surrendered losses are not adjusted against holding company’s income in the said three tax years, the subsidiary company shall carry forward the unadjusted losses.

In case the holding company disposes of shares in the subsidiary during the specified five years that breaches the prescribed minimum shareholding criterion, the holding company shall offer the amount of profit, in the year of disposal, on which taxes have not been paid due to set off of losses surrendered by the subsidiary company.

**Group taxation**

Subject to fulfilment of certain rules and specified corporate governance requirements holding companies and subsidiary companies, both incorporated under the Companies Ordinance, 1984 and belonging to a 100% owned group, may opt to be taxed as one fiscal unit. In such cases, Computation of income and tax payable shall be made on the basis of consolidated group accounts. The group companies shall give irrevocable option for group taxation as one fiscal unit. The relief would not be available for losses prior to the formation of the group.

**Capital gains**

Income arising on disposal of capital asset by a person in a tax year, other than a gain that is exempt from tax under the Ordinance, is chargeable to tax under the head “capital gains”.

Capital asset means property of any kind, but does not include stock in trade, consumable stores, raw materials held for the purpose of business and property on which depreciation or amortization is allowed.

The gain arising on disposal of a capital asset shall be reduced by 25% if it has held by a person for more than one year.

**Capital gains on disposal of immovable property**

Capital gains arising on disposal of immovable property shall be chargeable to tax at different rates, depending on the holding period of immovable property.

<table>
<thead>
<tr>
<th>For immovable property acquired on or after July 1, 2016</th>
</tr>
</thead>
</table>
| Where holding period of immovable property is up to one year. | 10%  
| Where holding period of immovable property is more than or equal to one year but less than two years. | 7.5%  
| Where holding period of immovable property is more than or equal to two years but less than three years. | 5%  
| Where holding period of immovable property is more than three years. | 0%  

<table>
<thead>
<tr>
<th>For immovable property acquired before July 1, 2016</th>
</tr>
</thead>
</table>
| Where holding period of immovable property is up to three years. | 5%  
| Where holding period of immovable property is more than three years. | 0%  

**Capital gains on sale of securities**

Capital gains arising on or after 1 July 2010 from disposal of securities shall be chargeable to tax at different rates, depending on the holding period of securities.
Securities mean share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, debt securities and derivative products.

Income from other sources

Income of every kind received in a tax year if not included in any other head, shall be chargeable to tax under the head “Income from Other Sources”. Incomes included under this head are dividend, royalty, profit on debt, ground rent, etc.

In computing income from other sources, a deduction shall be allowed for any expenditure paid by the person in the year to the extent to which the expenditure is paid in deriving income chargeable to tax under this head.

Modes of payment of tax

A taxpayer makes payment of tax at four stages, as follows:

- deduction / collection at source (withholding tax)
- advance payment of tax on quarterly basis
- payment of tax along with the return of total income
- payment of tax on demand as a result of amendment in assessment.

Withholding of tax

Under the Ordinance, virtually every amount received by a person is subject to withholding tax. Such withholding tax is treated as an advance tax in cases where income is chargeable under normal law and as a full and final discharge of tax liability, where income falls under FTR. Prescribed persons are treated as withholding tax agents who are required to withhold tax from specified payments.

Advance payment of tax

Advance tax is payable on a quarterly basis whereby advance tax due for a quarter shall be computed on the basis of estimate of tax payable for the year.

Filing of income tax returns

The Ordinance specifies the persons who are required to file Income Tax Return on the specified dates.

It is mandatory for companies and AOPs to file return of income and withholding tax statements electronically.

Further, individual taxpayers are also required to e-file the return of income in certain cases. A wealth statement and its reconciliation shall also accompany the return of income.

Avoidance of double taxation and unilateral relief

Pakistan has entered into agreements for avoidance of double taxation with a number of countries, including those where the conventions are restricted to the taxation of income from international air / shipping traffic.

A resident taxpayer shall be entitled to tax credit in respect of foreign source income chargeable to tax in Pakistan, if foreign income tax has been paid in respect of foreign source income equal to the lesser of:

- The foreign income tax paid, or
- Pakistan income tax payable in respect of the net foreign source income.

A credit shall be allowed under this provision only, if the foreign income tax is paid within two years, after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer.

Anti-avoidance

In order to avoid evasion of revenue through various tax avoidance techniques, following provisions have been introduced:

- In respect of transactions between associates, the Commissioner may distribute, apportion or allocate income, deductions or tax credit between the persons as is necessary to reflect the income that the persons would have derived in an arm’s length transaction.
The Commissioner may re-characterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme.

The Commissioner may disregard a transaction that does not have substantial economic effect.

The Commissioner may re-characterise a transaction where the form of the transaction does not reflect the substance.

**Thin Capitalization**

The concept of thin capitalization has been brought in Pakistan tax legislation so as to refrain foreign companies from injecting debt instead of equity in their subsidiaries formed in Pakistan. Thin capitalization rules apply to Foreign Controlled Resident Company (FCRC), in which 50% or more of the underlying ownership is held by a non-resident person (either alone or together with an associate), other than the financial institution or banking company.

Where foreign debt to foreign equity ratio of a FCRC, at any time during a tax year, exceeds 3:1, profit on debt paid by the company in that year on the part of the debt exceeding 3:1 ratio will not be allowed as deduction, while computing income of the FCRC. This rule is also applicable to the Pakistan branch of a foreign company.

Thin capitalization is inapplicable, if interest on foreign debt is chargeable to tax under the Ordinance and does not enjoy any exemption or reduced rate applicability.

**Advance ruling**

The FBR may, on application in writing by a non-resident taxpayer issue to the taxpayer an advance ruling setting out the Commissioner’s position regarding the application of the Ordinance, to the transaction proposed or entered into by the taxpayer.

Where the taxpayer has made a full and true disclosure of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material aspects as described in the taxpayer’s application for the ruling, the ruling shall be binding on the Commissioner with respect to its application of the transaction.

Where there is any inconsistency between a circular and an advance ruling, the advance ruling shall prevail.

**Taxation of special industries**

The Ordinance contains special provisions for determination of total income of banking companies, insurance business, oil, natural gas and other mineral deposits concerns as follows:

Income, profits and gains of a banking company shall be taken to be the balance of the income, from all sources before tax, disclosed in the annual accounts required to be furnished to the SBP subject to specified adjustments including provision for bad debts allowable up to 1% of total advances and up to 5% of advances for consumers and small and medium enterprises.

The profits and gains of any taxpayer carrying on insurance business shall be computed separately from any other business and as per the rules for computation of total income given in the Fourth Schedule to the Ordinance. The computation of profit and gains of a life insurance business shall be the current year’s surplus appropriated to profit and loss account, net of certain adjustments. The profit and gains of general insurance business shall be taken to be the balance of the profit disclosed by the annual accounts, net of certain adjustments.

The profits and gains from the exploration and production of petroleum including natural gas and from refineries setup at Dhandak and Bobi fields, pipeline operations of exploration and production companies, and manufacture and sale of liquefied petroleum gas (LPG) and compressed natural gas (CNG) shall be computed in accordance with the rules contained in Fifth Schedule to the Ordinance. A business undertaking in any of these categories qualifies to be taxed separately from other business operations, if such business undertaking is carried out as a result of an agreement with the Government.
Indirect taxes

Sales tax on supply of goods

Sales tax law is governed by the Sales Tax Act, 1990 (the Act). Sales tax is generally applicable at 17% ad-valorem on import and supply of taxable goods and it operates in Value Added Tax (VAT) mode. In certain cases, fixed sales tax and upfront value addition sales tax schemes are in place, where input tax adjustment / refund may or may not be admissible. Thus, sales tax is charged, collected and paid against taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on and on goods imported into Pakistan.

The fiscal policies and taxation measures are annually announced in accordance with the policies of the Government. The FBR is the regulatory authority.

Two conditions are essential to create a charge of sales tax:

1. **Taxable supply**
2. **Taxable activity**

**Taxable supply** means supply of moveable properties or goods, which are not specifically exempt. Supplies made by an importer, manufacturer, wholesaler, dealer, distributor or retailer are covered under this term.

**Zero rating**

Goods exported outside Pakistan are charged to sales tax at the rate of zero percent. Certain specified goods and persons are also subject to levy of sales tax at the rate of zero percent. An exporter / supplier in respect of zero-rated supplies is entitled to claim refund of input tax paid against taxable purchases.

**Exemptions**

Sixth Schedule to the Act as well as certain exemption notifications allow exemption of sales tax on specified goods. In case of industry-specific exemptions, the exemptions are subject to fulfilment of certain specified conditions, which are largely related with import of plant, machinery and equipment’s, either imported for installation and/or for BMRs. In respect of exempted goods, the supplier is not entitled to claim refund for input taxes paid.

**Reduced Rates**

Certain goods specified under Eight Schedule to the Act are subject to reduced rates of sales tax ranging from 5% to 10%. Imports of capital goods by the specified industrial segments can be made at reduced rate of 5%, subject to fulfilment of prescribed conditions.

**Registration**

Following persons engaged in making taxable supplies in Pakistan (including zero rated supplies) in the course or furtherance of any taxable activity, are required to be registered under the Act:

- A manufacturer having annual turnover from taxable supplies exceeding PKR 10 million during the last twelve months or whose annual utility (electricity, gas and telephone) bills during the last twelve months exceeds PKR 800,000
- A retailer
- An importer
- A wholesaler including dealer and distributor.

Manufacturers having annual turnover below the above-mentioned thresholds are not required to be registered and therefore, are not required to charge sales tax on supplies made by them. There is no threshold for importers, wholesalers, distributors or dealers and service providers. However, with exception the large retailers who fulfil the prescribed criteria and the retailers within the large export sectors, the retailers are subject to fixed sales tax regime, where sales tax is collected by means of electricity bills, charged and paid by the power distribution companies.

**Determination of tax liability**

A registered person is entitled to claim input tax paid on goods used or to be used for taxable supplies made by him against output tax liability. However, the Federal Government is empowered to specify goods in respect of which input tax cannot be claimed. In certain cases, a registered person is not allowed to adjust input tax in excess of 90% of the output tax.
arising in a reporting month. However, excess input tax can be carried forward to next tax period and shall be refunded in accordance with the specified time limits, if it remains unadjusted in consecutive tax periods.

Returns

A registered sales tax supplier (supplier) is required to enter data of supplies and debit/credit notes by 10th day of the following month in Annexure – C and Annexure - I, respectively, of the monthly sales tax return.

The registered sales tax buyer (buyer) would be informed of the respective input tax and debit/credit notes.

In case supplier has not filed his monthly sales tax return of the related period, the buyer would be informed but would be allowed provisional adjustment of input tax against invoices. However, if the supplier fails to file his return by the 10th of the next month, the input tax would be adjusted or recovered and in case the supplier files his monthly return subsequently, the buyer would be informed that the objection on related invoices stands settled, and input tax will be allowed in next return.

Similarly, in case buyer fails to declare withholding sales tax in his return, the supplier shall be allowed provisional adjustment. However, in case the withholding sales tax is again not declared in the return of the buyer by 10th of next month, the adjustment allowed to supplier would be reversed and in case buyer declares withholding tax subsequently, the supplier shall be informed of settlement of objection raised, and reduction in output tax in respect of withholding will be allowed in next return.

The payment of sales tax due in the monthly return is required to be made by 15th day of the month following the reporting month. Thereafter, the completed sales tax return is to be filed electronically on web-portal by 18th day of the same month.

Sales tax on services

Sales tax on wide range of taxable services is applicable in all the Provinces of Pakistan as well as within Islamabad Capital Territory (ICT). Generally, the incidence of Provincial sales tax on services is based on the point of renderence / provision of taxable services; however, such sales tax may also be applicable on the basis of origination, execution, consumption, or termination of the service. Standard rate of Provincial / ICT sales tax on taxable services is 13% within Province of Sindh, 15% within Provinces of KPK and Baluchistan, and 16% within Province of Punjab and ICT. However, certain small service segments are subject to reduced rates of sales tax which generally range from 3% to 10%.

Sales tax is also applicable in reverse charge mode under all the Provincial sales tax laws on services, where the recipient of taxable services in a particular tax jurisdiction is required to withhold and pay sales tax in case where the service provider is a non-resident / non-existent within the afore-said tax jurisdiction.

Withholding sales tax regimes are also applicable under Provincial sales tax laws of Sindh, Punjab and KPK, where the withholding agents (recipient of taxable services) are held responsible to deduct and pay the sales tax amount at the prescribed rates in accordance with tax jurisdiction where the services is rendered or provided. However, certain categories of service segments have been provided immunity from applicability of withholding sales tax.

Registration

The persons engaged in rendering or providing taxable services in the jurisdictions of the respective Provinces are required to seek separate Provincial sales tax registration in accordance with provisions of the respective Provincial / ICT legislations.

Determination of tax liability

A service provider shall be entitled to claim input tax credit for tax paid on account of taxable purchases and utilities like telephone, gas and electricity consumed proportionately for furtherance of taxable activity, against its output liability, subject to any conditions, limitations or restrictions prescribed under the Act or the allied Rules. In order to claim the input tax, registered person must hold a tax invoice for the purchase of goods or services used or consumed in providing or rendering of taxable services. If the registered person did not deduct or adjust the input tax in the relevant period, he may claim such input tax
deduction for adjustment in the tax returns for any of the four succeeding tax period.

However, input tax credits are not admissible on the taxable services acquired which are subject to reduced rates of Provincial / ICT sales tax. Similarly, the service providers who avail the benefit of reduced sales tax on the taxable services rendered or provided are not allowed to claim or adjust any input tax.

Returns

Under Provincial / ICT sales tax laws, the registered service providers are generally required to file the monthly sales tax return through the respective web-portals of the Provincial/Federal sales tax authorities. The monthly return is required to be filed by 18th day of the month following the reporting month, followed by the payment of tax due for the month by 15th day thereof.

Federal excise duty

Federal Excise Duty (FED) is levied on specified goods imported or manufactured in Pakistan and specified services provided and rendered in Pakistan including excisable services originated outside Pakistan, but rendered in Pakistan at varied rates as prescribed under the Federal Excise Act, 2005.

Generally FED is charged on the value or retail price or ad-valorem basis; however it is charged on some items on the basis of weight or quantity. Zero-percent FED rate is applicable for exported good or specified goods. The goods which are subject to levy of FED inter-alia include edible oils, aerated water and concentrates, tobacco & cigarettes, cement, oil seeds, sugar, liquefied gases, transportation vehicles, etc.

The limited number of services liable to levy of FED inter-alia include advertisements, air-travel, domestic air-cargo, shipping agents, telecommunication, insurance, non-fund services of banks and financial institutions, terminal and port operators, franchise services, services by stockbrokers, etc. The standard rate of FED is 16%, applicable in VAT mode.

FED is however not applicable on such taxable services, where Provincial sales tax is charged or paid. Thus, the applicability of FED on services under Federal Excise Act is restricted to the excisable services rendered or provided within the capital city Islamabad. The services not covered under Federal Excise Act are taxed within the jurisdiction of Islamabad through the ICT Sales Tax legislation.
**Labour Laws**

**Overview**

The Labour Laws in Pakistan were initially inherited at the time of independence of Pakistan in 1947. It was since then that the Labour & Employment Laws of Pakistan had been modified and developed further from time to time keeping in view with the social and economic agenda of different governments in various eras, industrial evolution, change in social-economic dynamics due to increase in population and work force, increased literacy, awareness, global changes, Government labour policies and most importantly because of and in compliance with International Labour Organization (ILO) Conventions ratifications. Pakistan since its inception has ratified around 36 ILO Labour Conventions.

Since the evolution of the State, the Labour Laws remained concurrent subject to which both Federal as well as the respective provincial governments can do the necessary amendments as per their requirements. However, this scenario altogether changed in April 2010 after the promulgation of the 18th Amendment in the Constitution of Pakistan; the Labour & Employment subjects have now been devolved to the respective provinces.

The Labour subjects which have been transferred to the respective provinces include:

- Welfare of Labour
- Trade Unions
- Labour exchanges, employment information bureaus
- Training establishments
- Safety of labour in mines, factories and oil-fields
- Unemployment Insurance

Interestingly, the Labour and Employment Laws of Pakistan are mostly focused on the labour side whereas there is no separate and well defined Labour & Employment Law for ‘Officers’.

**Objectives of the Labour Laws in Pakistan**

- To promote and realize standards and fundamental principles and rights at work.
- To create greater opportunities for women and men to secure decent employment and income.
- To enhance the coverage and effectiveness of social protection for all.
- To strengthen tripartism and social dialogue.

The Constitution of Pakistan, 1973, which is the Supreme Law of the Land contains a range of provisions with regards to labour rights mentioned therein in Part II, Chapter 1: Fundamental Rights and Principles of Policy with its five relevant Articles laying the foundation for the Labour Laws:

- **Article 11** of the constitution prohibits all forms of slavery, forced labour and child labour.
- **Article 17** provides for a fundamental right to exercise the freedom of associated form unions.
- **Article 18** prescribes the right of its citizens to enter into any lawful profession or occupation and to conduct any lawful trade or business.
Article 25 lays down the right to equality before the law and prohibition of discrimination on the grounds of sex alone.

Article 37(e) makes provision for securing just and humane conditions of work ensuring that children and women are not employed in vocations unsuited to their age or sex and for maternity benefits for women in employment.

Salient features and key statutory liabilities of the employers according to the Labour and Employment Law for Industrial and Commercial Establishments in Pakistan

The salient features and the key statutory liabilities of the employers according to the Labour and Employment Law in Pakistan as enforced can be briefly categorized into the following key areas:

I. Minimum Wage

There is a National as well as Provincial minimum wage ceilings / slab law and regulations for skilled and unskilled workers, etc. (updated and revised annually based on the recommendations of the Minimum Wage Board) employed in various industrial and commercial establishments. All the employers are bound to follow the same in lieu of minimum wage payment to their employees.

Furthermore, as per law it is also mandatory that the wages should be paid by the employer to its employees only via cross cheque or bank account transfer.

II. Social Security

The Social Security law introduces a scheme of social security for providing benefits to certain employees or their dependents in the event of sickness, maternity, employment injury, or death. The employer is required to make the contribution for all the covered employees to the Social Security Institution at the prescribed rates.

III. Old Age Benefits

The Employees Old Age Benefit law is a welfare law, which requires for compulsory insurance of employees by industrial, commercial and other establishments, as defined in the law. It is also mandatory for the employer and the insured person, in each calendar month, to make the contributions as per their defined contribution percentage to the Employees Old Age Institution. The Institution in return manages the Employees Old Age Fund wherein all the contributions are being deposited and invested for distribution of pensions and grants accordingly.

An Insured Person is entitled to avail any of the following benefits as per his/her entitlement:

- Old-Age Pension is paid on a monthly basis to the insured person who is entitled for pension at the prescribed rates on the event of his/her retirement.
- Old-Age Grant is paid to insured person who retires but does not meet the minimum threshold for pension.
- Survivor’s Pension is paid to the spouse in the event of death of insured person.
- Invalidity Pension is paid to insured person in case of permanent disability.

IV. Workmen Compensation

The Workmen Compensation law requires an employer to compensate its employees or their legal heirs for injuries or death by accident arising out of and during the course of employment. The law prescribes the different nature and percentage of compensation in the event of death or in case of injuries which caused either full or partial disablement to the person on either temporary or permanent basis.

V. Workers’ Welfare Fund

The Workers Welfare Fund (WWF) is established mainly to provide financing to the projects connected with the establishment of housing estates or construction of houses, flats or development of plots for the workers and financing of other welfare measures including education, training, re-skilling and apprenticeship for the welfare of the workers.

Every Industrial Establishment meeting the defined income threshold as per law shall be required to make contribution to the WWF as per the prescribed rate.

VI. Workers’ Profit Participation Fund

The Workers Profit Participation Fund (WPPF) law requires the companies, which met certain criteria, to establish a fund for participation of workers in the profits of companies and
VII. Terms and conditions of employment relating to the employees

In every industrial or commercial establishment, terms and conditions of the employment of workers and other incidental matters shall be regulated in accordance with the Standing Orders which inter-alia cover following matters:

- Classification of worker into categories defined in the law as permanent, probationer, badly, temporary, apprentice and contract worker
- Employment cards to be given to the workers
- Terms and conditions of service to be given in writing
- Publication of working times, holidays, pay days and wage rates
- Group Incentive Scheme, Compulsory group insurance of workers against natural death, disability or injury arising out of contingencies not covered by the Workmen’s Compensation law
- Payment of compulsory bonus in case the employer is making profit
- Terms and conditions governing stoppage of work, closure of establishment, termination of employment, payment of gratuity, procedure for retrenchment, disciplinary procedures and other termination benefits, etc.

VIII. Health and safety measures at work place

The Labour Laws provide for various sector-wise Health & Safety enactments at workplace including Hazardous Occupations Rules, Boiler Acts, etc. and also covers the detailed general Health & Safety matters under the Chapter-III of the Factories Act(s), including cleanliness, ventilation, temperature, disposal of waste, dust and fumes, overcrowding, lightening, drinking water, latrines and urinals, compulsory vaccination and inoculation, canteen facility, precautions in case of fire, fencing on machinery, working on or near machinery in motion, employment of young persons near dangerous machinery, etc.

On the other hand, the Labour Inspectors are required to be appointed by the provincial governments who are responsible for inspection and proper enforcement of these regulations at the workplace.

IX. Wages, working hours, overtime, holidays and leaves

The Labour Laws also govern and provide guidelines relating to following matters regarding the work and employment of persons employed in factories, shops, commercial, industrial and other establishments in areas such as:

- Daily and weekly working hours
- Overtime and double wage for overtime
- Weekly holidays, compensatory holidays, annual holidays and festival holidays
- Casual leaves, sick leaves, Annual leaves, maternity leaves
- Maintenance of records of leaves
- Restrictions on double employment
- Wages during leaves and holidays
- Termination of employment
- Prohibition of employment of children
- Others
X. Labour Union, CBA and Federation

The Industrial Relations in Pakistan are regulated and governed by the Federal and respective Provincial Industrial Relations Acts which define trade union as a combination of workmen whose primary purpose is to promote and defend workers’ rights and interests in an industry or establishment.

Workers have the right to form or join a trade union subject to reasonable restrictions of law without previous authorization; however, they can become members of only one union at a time. If a worker joins more than one union at a time, his earlier membership will stand cancelled.

A trade union can apply for registration to the office of Registrar of trade union in a province. Collective Bargaining Agent is a trade union, which is the elected agent of workers in an establishment.

XI. Employees Associations

As per law those employees who do not fall within the category of the workmen in any industrial and commercial establishment such as Officers etc., shall not form or be member of any CBA or Trade Union; however by virtue of the Constitution and guaranteed Fundamental Rights, the law grants them the freedom to form lawfully and be the member of the Association of their similar fellow category of employees for the protection of their rights and interests subject to reasonable restrictions of law at any time accordingly.

XII. Statutory restrictions and bindings on employers and employees for doing unfair labour practice(s) and their respective rights and duties for healthy, harmonious working conditions and avoidance of any industrial disputes as per the Industrial Relations Law

The Industrial Relations Law as enforced in the country is mainly categorized and governed by the Federal as well as the respective Provincial Industrial Relation Act(s).

The Federal Industrial Relations Law / Act regulates and governs the “Trans-Provincial Establishments” whereas the respective Provincial Industrial Relations Law / Act(s) regulates and governs the “Provincial Establishments”.

It provides comprehensive procedural law including adjudication procedures in case of any industrial disputes as well as prohibits categorically any form and mode of unfair labour practice(s) on part of the employer or the employee.

Similarly, it also provides the comprehensive details of the rights and duties of both the employer and the employee for harmonious, healthy and progressive industrial relations and working conditions necessary for the growth and progress of any establishment accordingly.

XIII. Labour Judiciary and Legal Forums for complaints and adjudication

The pyramid of labour and employment related judiciary for industrial and commercial establishments in Pakistan is based apart from the lower tier of the Directorate of Labour Conciliation and Arbitration proceedings, mainly revolves around respective “Special Courts” such as Provincial Labour Courts, Provincial Labour Appellate Tribunals, National Industrial Relations Commission, Provincial High Courts, and then ultimately to the Supreme Court of Pakistan being the ultimate competent jurisdiction.

Similarly, there are some other respective Adjudication Labour Forums such as Authority under the Payment of Wages Act, Commissioner for Workmen Compensation, EOBI Adjudicating Authority, and Social Security Courts, etc., which are providing justice to both the employers as well as the employees / workmen in case of any industrial dispute, compliant or infringement of any legally secured right and obligation.
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