HOW TO DO BUSINESS IN PAKISTAN?

Trade & Investment Guide

TRADE DEVELOPMENT AUTHORITY OF PAKISTAN
MINISTRY OF COMMERCE

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Disclaimer

This booklet provides basic knowledge to potential investors and exporters. The aim of this guide is to highlight the striking features of Pakistan's emerging economy, liberal investment regime, export potential, newly amended Companies law (2017), revised Corporate tax legislation and initiatives/incentives introduced by Government of Pakistan for entrepreneurs and exporters.

Information and statistics used are correct as of November 2020 and may be subject to change. For detailed and updated information regarding doing business in Pakistan, readers are advised to visit the official site of the concerned authorities.

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ACRONYMS

ADB	Asian Development Bank
BOI	Board of Investment
BOT	Build Operate Transfer
DB	Doing Business
DTRE	Duty and Tax Remission for Exports
ECO	Economic Cooperation Organization
EFS	Export Finance Scheme
FED	Federal Excise Duty
FDI	Foreign Direct Investment
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
IERS	Islamic Export Refinance scheme
IMF	International Monetary Fund
ILTFF	Islamic Long term financing facility
LDA	Lahore Development Authority
LESCO	Lahore Electric Supply Company
LTFF	Long term financing facility
NAPHDA	Naya Pakistan Housing and Development Authority
NEPRA	National Electric Power Regulatory Authority
MoU	Memorandum of understanding
OIC	Organization of Islamic Cooperation
PITB	Punjab Information Technology Board
PPE	Property Plant and Equipment
SAARC	South Asian Association for Regional Cooperation
SBCA	Sindh Building Control Authority
SECP	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
SEZ	Special Economic Zone
UNCTAD	United Nation Conference on Trade and Development
UNO	United Nation Organization
WHT	Withholding tax
WTO	World Trade Organization

Section 1:

Pakistan: In General

Geography and Connectivity

Pakistan, with a total area of more than 750,000, square kilometers, is the 33rd largest country in the world.

Its neighboring countries includes Iran, India, China and Afghanistan. Pakistan is also blessed with 1,046 km long coastline along the Arabian sea with three well established sea ports: Karachi port (Sindh), Muhammad Bin Qasim Port (Sindh) and Gwadar port (Balochistan). Pakistan's geography is strategically significant given its connectivity with different regions including Western China, Afghanistan and Central Asian Republicans such as Turkmenistan, Tajikistan, Kazakhstan and Uzbekistan. Hence, all the above mentioned ports hold strategic importance.

Pakistan comprise of four provinces (sub-administrative units): Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh. Major cities of Pakistan are: Islamabad, Karachi, Lahore, Sialkot, Faisalabad, Multan, Quetta, Hyderabad and Peshawar.

Pakistan's geographical coordinates put its time scale 5 hours ahead of "Greenwich Mean Time" GMT, table below shows the time difference between Pakistan and major world cities.

Table 1: City hours ahead or behind Pakistan

City (Country)	Time Diff.
Beijing (China)	+3
Dubai (UAE)	+1
Delhi(India)	+0.3
Dhaka(Bangladesh)	+1
Tokyo (Japan)	+4
London(UK)	-4
Sydney (Australia)	+5
New York (USA)	-9
Ottawa (Canada)	-9

Demography

With a population of 220 million Pakistan is the fifth most populated country in the world[1] and forth most populated country in Asia after China, India and Indonesia. With the current population growth rate of 2% per annum, population of Pakistan by 2030 shall be 260 million. Currently, the most populated cities are: Karachi (11 million), Lahore (6 million), Faisalabad (2 million), Rawalpindi (1.7 million) and Multan (1.4 Million).

Pakistan has mostly young and working class population. The median age in Pakistan is 22.8 years[2]. Demographically, more than 62%[3] of the population over 10 years of age is literate and 36.51% total population[4] resides in cities.

Table 2: Age structure in Pakistan

Age group	% of total population
<10 years	17%
10-24 years	36.76%
25-50 years	36.91%
>50 years	9.25

Source: Author's estimate based on PBS data

Language

Pakistan's official languages are Urdu and English. All the official documents which are to be submitted with public sector authorities must either be in Urdu or English. However, English is widely used and understood in trade and business circles all over Pakistan.

[1] UN data United Nations, Department of Economic and Social Affairs, Population Division
[2] ibid
[3] PBS (Percentage distribution of population by age, sex, literacy and level of education 2017-18)
[4] ibid

Currency

The domestic currency is Pakistani Rupee.

Religion

Pakistan is an Islamic republic. However, freedom of worship for all religions is protected under the constitution.

Constitution

The legal framework of republic of Pakistan is based on 1973 constitution

Government Structure

Pakistan has been a parliamentary democracy with dichotomy of power between Executive, Legislature and Judiciary.

The Legislature comprises two houses: The National Assembly (the lower house) and the Senate (the Upper house). Members of national and the provincial assemblies are elected through a direct vote. However, some seats are reserved for females, ministries which are nominated by the parties[5]. Members of the upper house are elected through an indirect voting comprising electoral college of members of national and provincial assemblies. However, some seats are reserved for females and minorities which are nominated by the parties. [6]

The apex judicial authority of Pakistan is the Supreme Court headed by Chief Justice of Pakistan. The High Courts, District Courts and the lower courts at sub division level function under administrative authority of supreme court of Pakistan. The courts are independent and have judicial powers.

The Executive authority of country is Cabinet of Pakistan headed by the Prime Minister. Members of both houses of legislature elect the Prime minister for a term of 5 years while the President, Head of State, is elected by electoral college comprising members of the lower and the upper houses as well as the members of assemblies of provinces also for a term of 5 years.

The current Prime Minister of Pakistan is Mr. Imran Khan who was elected in August 2018. The incumbent president is Mr. Arif-ur-Rehman Alvi. The next general election in Pakistan shall take place by the late 2023.

E-Government Initiative

E-Government Directorate was established in 2020 under Ministry of Information & Technology with a view to deliver better public services to enhance government efficiency with more digitally, economically and bring the public closer to the government. As in the developing countries, government of Pakistan also has taken initiatives and started e-Government projects in the whole country to provide better e-services in a more convenient and cost-effective way to not only the citizens of Pakistan but foreign investors and businessmen and government dignitaries who work in Pakistan. The foremost priority is to increase the transparency and responsibility within government.

Energy Prices

The price of electricity (March 2020) is 0.059 U.S. Dollar per kWh for households and 0.160 U.S. Dollar for businesses which includes all components of the electricity bill such as the cost of power, distribution and taxes. The average price of electricity in the world for the same period is 0.141 U.S. Dollar.[7] However, special rates are applicable to various export oriented and service industries.

Policy Rate

The current policy rate in Pakistan is 7%

[5] www.na.gov.pk
[6] www.senate.gov.pk
[7] Globalpetrolprices.com

Labour employed and Wage rate

In Pakistan the total labour employed is over 65.5 million [8]. According to the ILO data, Pakistan is amongst the few Asian countries where the minimum wage rate earns a meagre amount (US$117 per month). The minimum wage is less than the minimum wage rate in China where the rate is USD 217 per month. [9]

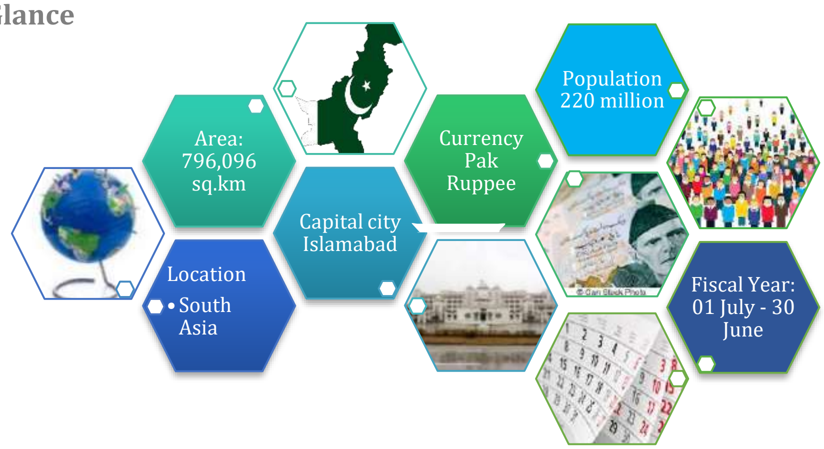
Expanding Wholesale and Retail market

Retail is a prominent sector in Pakistan after agriculture and manufacturing. Strengths of the country for an expanding retail market includes increasing population, majorly young population (73% under 35 years) and growing middle class income.

International Relations

Pakistan believes in peaceful coexistence and cooperation with the world. As an important and active member of various international and regional organizations and agencies /institutions, i.e., United Nations Organization(UNO), World Trade Organization (WTO), South Asia Association of Regional Cooperation (SAARC), Organization of Islamic Countries(OIC), Economic Cooperation Organization (ECO), Shanghai Cooperation Organization (SCO) [10], World

Figure 1: Pakistan at a Glance



Major Industries
- Textile, Cements, Fertilizers, Steel, Sugar, Shipbuilding and Electric goods

Major Crops
- Wheat, Rice, Sugarcane, Cotton and Maize

Major energy resources
- Petroleum, Thermal, Gas, Coal, Nuclear

Major Exports
- Textile, Garments, Rice, leather items, carpets, sports goods, Handicrafts, Fish and Fish preparations and Fruits

Major Imports
- Industrial Equipments, Chemicals, Vehicles, Steel, Iron Ore, Petroleum, Edible oil, Pulses and tea

[8] Labour Force Survey 2017-18
[9] ILO, Global Wage report 2020-21
[10] Became member on 9 June 2017

Bank, International Monetary Fund, Asian Development Bank and others, Pakistan always promotes its interests through cooperation, compliance of international law, treaties and mutual respect and understanding.

Besides, Pakistan has bilateral arrangement treaty: Trade and Investment Framework Agreement(TIFA), with the United States of America.

Free Trade Agreements

Pakistan is firm believer in blessings of globalization and economic integration which are important for eliminating trade barriers and creation of enabling environment through cooperation and competition. Market access is vital for export development, industrial growth, job creation and fighting poverty. The Free Trade Agreements are critical for trade development especially for the developing world because they help increase volume of trade and eliminate unhealthy and trade restrictive measures. To achieve these objectives, Pakistan has been looking for Free Trade Agreements (FTAs) with partner countries in the world.

Pakistan has successfully concluded FTAs with People's Republic of China(PRC), Democratic Socialist Republic of Sri Lanka (DSRSL) and Persekutuan Malaysia. Pakistan is negotiating FTAs with Thailand and Turkey. Pakistan is member of another Free Trade Agreement: South Asia Free Trade Agreement. In addition to FTAs, Pakistan has signed Preferential Trade Agreements (PTAs) with the Islamic Republic of Iran and the Republic of Indonesia. Pakistan is located at strategic position in South Asia. Landlocked countries like Afghanistan and Central Asian States utilize Pakistan routes and ports for trading with the world. Pakistan has thus signed Transit Trade Agreement with Afghanistan, facilitating Afghan imports and exporters through Pakistani ports, and Quadrilateral Traffic in Transit Agreement(QTTA) with China, Kyrgyzstan and Kazakhstan, for facilitating transit traffic and trade[11].

Figure 2: List of Trade Agreements signed by Pakistan

[11] Route: Karachi-Rawalpindi-Hassanabdal-Gilgit-Khunjrab (Pak/China Border)-Kashgar -Torugart (China/Kyrgyzstan Border)-Bishkek-Akjol-Kordai (Kyrgyzstan/ Kazakhstan Border)-Almaty (Kazakhstan) = Length - 3710 Km Approx.

Major Economic Indicators

Pakistan is a resilient economy, its real GDP, showing positive growth in recent years despite significant challenges like the global recession. With abundant natural resources, huge and mainly young population, growing industrial, agriculture, and services and increasing trade the country is on the path of stabilization.

For the fiscal year FY20, the outbreak of COVID-19 devastated global trade and threatened food security among many countries, IMF's world economic outlook in its June 2020 update estimated that global economic growth had reduced by 4.9% in FY20. In Pakistan the pandemic largely hampered the activities of manufacturing, retail, transport and trade and reduced the real GDP growth percentage to 0.4% .[12]

In a bid to revive the economy, Pakistan came up with economic stimulus package and social safety program to avoid major economic and human crisis. Prudent monetary and fiscal policies and improving current account balance supported the economy in the Post COVID period. In the third quarter of FY20 Consumer confidence has shown an upward trajectory in a row which shows that the pandemic's impact on the economy and consumer is slowly tapering off.

Figure 3: Economic indicator for the period July-June FY20

Indicators	FY19	FY20
GDP Current price (Rs./Billion)	37,972	41,727
Consumer Price Inflation (average)	6.80	10.74
Workers' Remittances (USD Billion)	21.7	23.1
Foreign Direct Investments (USD Billion)	1.4	2.6
Current account Balance (% of GDP)	-4.8	-1.1
Export (USD Billion)	22.9	21.4
Import (USD Billion)	54.7	44.5

Source: SBP, PBS

[12] Source: International Monetary Fund, SBP (annual report 2019-20)

Section 2:

Pakistan's Investment Climate

Foreign Direct Investments' Statistics

A relatively convivial legal environment for FDI[13], abundance of cheap labor, lucrative investment policies and a strategic geographical position of Pakistan has made the country a suitable candidate for international investors in the industrial and manufacturing sector. Pakistan seeks greater foreign direct investment in order to boost its economic growth, particularly in the Power, financial, information and communications and industrial sectors.

In Pakistan, FDI has improved from year 2015 to year 2018 and then majorly fell in year 2019 because of the rupee depreciation. In FY20 net FDI inflows in Pakistan surged 88% to USD 2.6 billion from USD 1.4 billion as received in FY19. Figure below shows the FDI trends for last 10 years.

Table 3: FDI inflows by origin of countries-USD Millions

Country	2018-19	2019-20	Jul-Sep FY 21 (p)
China	130.8	844.1	103.6
UK	185.0	117.3	27.9
USA	88.1	97.2	18.9
Hong Kong	171.0	190.7	38.4
Switzerland	21.2	61.8	7.3
UAE	103.7	(44.2)	(21.6)
Italy	51.9	56.4	6.8
Netherlands	69.0	133.2	49.1
Austria	7.6	3.8	0.0
Japan	117.3	52.4	1.7
Turkey	73.8	24.9	0.9
Others	343.0	1,023.6	182.7
Total	**1,362.4**	**2,561.2**	**415.7**

Source: BOI

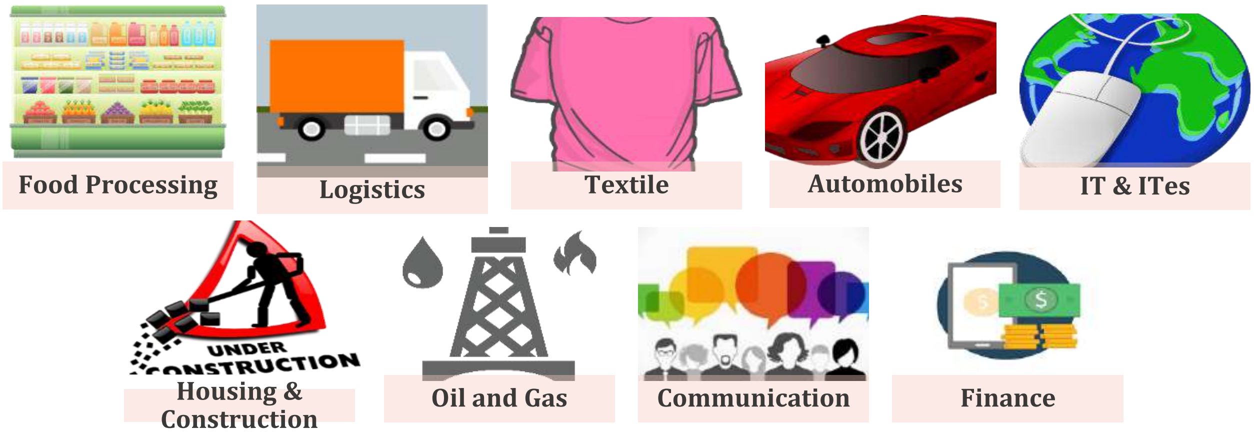
Table 4: FDI inflows according to sectors-USD Millions

Sector	2018-19	2019-20	Jul-Sep FY 21 (p)
Oil & Gas	349.8	311.4	67.2
Financial Business	286.5	273.8	102.5
Textile	76.8	37.7	5.0
Trade	76.3	32.7	2.3
Construction	70.2	20.7	9.4
Power	(323.9)	764.3	113.3
Chemicals	103.1	20.7	(5.4)
Transport	40.1	(4.9)	0.3
Communication	(55.7)	622.5	37.5
Others	739.2	482.3	83.6
Total	**1,362.4**	**2,561.2**	**415.7**

[13] FDI: Foreign direct investment involves establishing a direct business interest in a foreign country.

Source: BOI

Figure 4: Priority sectors for FDI



Promoting Agency: Board of Investment

The specialized investment promotion agency of Pakistan is the Board of Investment (BOI). BOI is responsible for the promotion of investment, assists companies and investors who intend to invest in Pakistan, facilitates the implementation and operation of their projects and enhance Pakistan's international competitiveness. BOI work in coordination with SBP, SECP, Ministry of Finance to promote foreign investment in insurance, banking and financial sectors.

Official website: https://invest.gov.pk/home

Investment Incentives

1. Non-Discrimination for foreign investors

The existing investment policy of Pakistan offers non-discriminatory regulations for foreign investors. Foreign investors can establish and own, operate and dispose of interest in most type of the businesses in Pakistan. The existing FDI policy is open for all segments of the country, except those restricted for reasons of national security and public safety like arms and ammunitions; high explosives; radioactive substances; securities, currency and mint; and consumable alcohol.

2. No Minimum-Maximum capital requirement

There is no minimum requirement for the amount of foreign equity investment in any sector. Investment policy of 2013 has also relaxed the limit of equity caps for most of the sectors. Foreign investors can have 100% equity (ownership) except for banking, airline, agriculture and media sectors.

- For banking sector, State bank of Pakistan is the sole supervisory and regulatory authority.[14]
- For services sector, foreign investors may have 100% equity, after having a no-objection certificate from the concerned agency/sector.
- In education, health and infrastructure sectors full ownership is allowed.
- A slab of maximum 60% equity is set for agriculture projects while for corporate

[14] The authorization/issuance of a commercial banking license has been vested in State bank of Pakistan (SBP)under section 27 of the Banking Companies ordinance,1962

agriculture farming 100% ownership is allowed if the subsidiaries are incorporated into Pakistan.

3. Flexible financing requirements

In order to address the financing needs foreign investors are allowed to acquire loan, for any business activity, from domestic (subject to prevailing rules/ regulations of SECP and SBP and observance to Debt-Equity ratio) as well as foreign private entities. Currency exchange option is available for Pakistani currency into other foreign currency[15].

4. Protection for property rights

Pakistan's legal and investment climate supports the enforcement of property rights and both local and foreign owner interest. Foreign companies can lease farmland for up to 50 years, with renewal options. Foreign Private Investment Promotion and Protection Act 1976 guarantees the remittance of profits earned through the sale or revaluation of property.

5. Right to due process of Law

Investors are allowed to go for international arbitration in case of disputes arising from an agreement (if that provision is provided in the contract) and after exhaustion of local remedies for a period of 6-months. In addition to these, the expanding network of international investment and free trade agreement also ensures smooth and efficient provisions for dispute settlement.

6. Allowed foreign exchange and remittances

Bringing in of foreign currencies is permitted without any limit. Travelers leaving Pakistan are allowed to physically carry a maximum of $10,000 in cash. For domestic currency, travelers can carry maximum of Rs. 3000 for India a maximum of Rs. 500 is permitted.

Cross-border payments of interest, profits, dividends, and royalties are allowed without submitting prior notification, banks are required to report loan information so SBP can verify remittances against repayment schedules.

Table 5 : Highlights of the Investment incentives in Pakistan

Policy Parameter	Manufacturing Sector	Non-Manufacturing Sector		
		Agricultural	Infrastructure and Social	Services
Govt. Permission	Not Required (Except some[16])	Not Required except specific licenses from concerned agencies		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	60%, 100% for CAF[17]	100%	100%

[15] Foreign Exchange regulations of SBP and Investment policy 2013
[16] (Except for Arms and Ammunitions, High Explosives, Radioactive substances, Security Printing, Currency, alcohol manufacturing)
[17] CAF is the corporate Agriculture farming

Customs duty on import of PME[18]	5%	0%	5%	5%
Tax relief (IDA[19], % of PME cost)	25%	25%		
Royalty & Technical Fee	No restriction	Allowed as per guidelines - Initial lump-sum up to $100,000 - Max Rate 5% of net sales - Initial period 5 years		

Source: BOI

Business Facilitation[20]

Government of Pakistan is working with the World Bank to improve Pakistan's business climate. Pakistan ranked 108 out of 190 countries in the World Bank Doing Business 2020 report's "Starting a Business" category. The procedures for registration have been simplified. Board of Investment has also instituted an online registration procedure for foreign companies entering and operating in Pakistan. In addition to this, land records are automated, requirements for obtaining construction and utility permits are made easy, online/electronic tax payments method is introduced and cross-border trade is facilitated by improving electronic submissions and processing of trade documents.[21]

Furthermore, till date Government of Pakistan has signed 53 Bilateral Investment treaties, of which 32 are in force[22].

Table 6: List of countries having Bilateral investment treaties with Pakistan

Austria	Korea	UAE
Bahrain	Lebanon	UK
Bosnia	Mauritius	Uzbekistan
China	Romania	Portugal
Denmark	Singapore	Spain
France	Sri Lanka	Netherlands
Germany	Sweden	Italy
Iran	Switzerland	BLEU[23]
Japan	Tajikistan	Laos
Kazakhstan	Turkey	Oman
Syria	Kuwait	

[18] Property, Plant and Equipment
[19] Initial Depreciation Allowance
[20] Section 5 of the report explains the current and upcoming reforms in business facilitation in Pakistan
[21] Starting a business in Pakistan normally involves 5 procedures and takes at least 16.5 days. For more information, see section: doing business in Pakistan
[22] https://investmentpolicy.unctad.org/international-investment-agreements/countries/160/pakistan
[23] BLEU (Belgium-Luxembourg Economic Union)

Investor Friendly Visa Policy

The existing visa policy of Pakistan is quite comfortable for foreign business persons. Under the visa policy of Pakistan, businessmen from countries listed under the category of "BVL countries" (see: BVL countries https://visa.nadra.gov.pk/business-visa-list-bvl/)
are allowed for:

1. A 5-year multiple entry visa within 24 hours (for "Non-BVL countries" processing time is 4 weeks)
2. A single entry 30 days on arrival visa

In addition to this, foreign technical and managerial personnel are allowed for multiple entry 1-year work visa. The duration can be extended on yearly basis subject to approvals. The processing time of work visa is 4 weeks. No registration with the police is required for the work visas.

Online application is allowed for both the first time (new visa) and extension of existing valid visa.

Corporate Tax Incentives

Government of Pakistan has announced various tax incentives including tax exemptions, tax holidays and tax credits

Table 7: Enterprise/activity specific tax incentives

Source: 2nd schedule of Income tax ordinance,2001 (amended up to 30th June 2020)

Type of Enterprise/Activity	Tax Exemption/reductions
Employing fresh graduates	Tax credit equal to the amount of salary paid in the year of employment
Electric power generating company	Profits and gains are fully exempt
Exporter of Computer software, IT services, IT enabled services	Exempt till 30th June 2025, where 80% of export proceeds are brought into the Pakistan
Refineries, set btw1 July 2018- 30 June 2023	Exemption for 20 years (contingent)
Low-Cost housing projects	50% exempt (contingent)
Projects under NAPHDA[24] and Ehsaas[25] Program	90% exempt
Enterprises set up in 'special Economic Zones'	Fully exempt for 10 years or 5 years (conditions apply)
Liquefied natural gas terminal operators and owners	Fully exempt for 05 years
Small companies[26]	Reduced income tax rate of 23%

[24] Naya Pakistan Housing and Development Authority

[25] Ehsaas is the biggest and boldest programme ever launched in Pakistan to uplift marginalized people. Detail of projects https://www.pass.gov.pk/home

[26] Small companies: registered on and after 1 July 2005, has paid up capital plus undistributed reserves not exceeding Rs. 5 million, has employees not exceeding 250 at any time during the year, has annual turnover not exceeding Rs. 250 million and is not formed by splitting up or the reconstitution of business already in existence.

to promote investment and industrialization in the country.

Furthermore, over 66 bilateral tax treaties have been signed by Government of Pakistan, the number is still growing. (see list of full scope bilateral treaties https://fbr.gov.pk/bilateral-full-scope-treaties/152329)

Infrastructure Facilities Towards FDI

1. Export Processing Zone

Established in 1980, the EPZA is one of the fast-growing projects undertaken by the government. Export Processing Zones Authority is a Pakistan Government venture conceived and designed to increase and improve the exports of the country. Its main objectives are accelerating the pace of industrialization in the country and enhancing the volume of exports by creating an enabling environment for investors to initiate ambitious export-oriented projects in the export processing Zones[27] which would, as a corollary, create job opportunities, bring in new technology and attract foreign investment.

Incentives for EPZ includes:

1. Developed land on competitive rates for 30 years
2. Duty-free import of machinery, equipment and materials
3. Freedom from national import regulations
4. Exchange control regulations of Pakistan not applicable
5. Repatriation of capital and profits
6. No sales tax on input goods including electricity/gas bills
7. Duty-free vehicles allowed under certain conditions
8. Domestic market available to the extent of 20%. Exceptions may be available
9. Presumptive tax @ 1%
10. Only EPZA is authorized to collect Presumptive Tax at the time of export of goods which would be final tax liability
11. Obsolete/old machines can be sold in domestic market of Pakistan after payment of applicable duties & taxes
12. Defective goods/waste can be sold in domestic market after payment of applicable duties, maximum up-to 3% of total value
13. EPZ units allowed to supply goods to Custom manufacturing bonds

Relevant Agency

Export Processing Zone Authority: https://epza.gov.pk/

2. Special Economic Zones

The Investment policy Act 2013 necessitate the provision of setting up of Special Economic Zones[28] throughout the country to meet global competitiveness efficiently and effectively. The Federal Government and Provincial Governments may establish special economic zones by themselves or in collaboration with private parties under various modes of collaboration including public- private partnership or exclusively through the private parties as provided under the special economic zone act ,2012 (amended 2015). Under SEZ act private sector can also establish SPZs with the approval of the Government. Minimum land requirement for establishing SEZ is fifty (50) acres.

[27] Means an economic zone which is establishes under the EPZA ordinance, 1980 (for economic, industrial and commercial activities)

[28] “Special Economic Zone” or “(SEZ)” means a geographically defined and delimited area which has been approved and notified by the Board of Approval.

Incentives for SEZ includes

For Developer

- One-Time exemption of all custom duties and taxes on Plant and machinery (the scope of Property Plant and Machinery has been expanded to include IT sector, Storage communication, and infrastructurein development in Finance bill 2020) imported into the SEZ (except items of Chapter 87 of Pakistan Custom Tariff)
- Income Tax Exemption for five years from the date of development agreement

For Zone Enterprises

- One-time custom duties exemption on plant and machinery (except Chapter 87)
- Income tax exemption for 10 years for units starting production by 30-06-2020 and 5 years for the units starting production thereafter

Co-developers

- Same incentives as provided for developers as per the Finance bill 2020

Other facilities

- One- Window facilities by BOI
- Dry port facilities
- Security arrangments by provincial governments
- All utilitie and infrastructure till zero point of zone

Approved /Notified SEZs

Name of SEZ	Location	Developer[29]	Type of Industry
Khairpur SEZ	Sindh	Public	Agro Food Processing, light Engineering and Manufacturing
Allama Iqbal Industrial City SEZ	Punjab	Faisalabad Industrial Estate Development and Management Company	Textile, Engineering, Electrical and Electronics, Chemical, Paints, Agriculture and Food Processing, Steel and Packaging
Bostan SEZ	Balochistan	Industries Department, Gov. of Balochistan	Fruit Processing, Agricultural Machinery, Minerals and Gems, Ceramic Industries, Ice and Cold Storage, Electrical Appliances, Motor Bike assembly, Pharmaceutical and Halal food industry

[29] Developer means an enterprise which has entered into a development agreement with a SEZ Authority

Hub SEZ	Balochistan	Lasbela Industrial Estates Development Authority (LIEDA)	Textile, Pharmaceutical, Cement manufacturing, Food & Confectionary Industries, Chemical Industries, Plastic, Paper Manufacturing, Printing & Packaging, Ceramics, Marble Processing, Mineral Grinding
Bin Qasim SEZ	Sindh	National Industrial Parks Development & Management Company (NIP)	Light Engineering, Auto & Allied, Foundry and Fabrication, Warehousing & Logistics, Mixed Used
Korengi Creek Industrial Park	Sindh	National Industrial Parks Development & Management Company (NIP)	Low Density Zone: Light Engineering, Food Processing, Consumer Food & Pharmaceutical Products, Garments / Value added Textiles, Packaging & Printing & Warehousing/Logistics High Density Zone: Commercial and Business Centers, Information Technology, Gems & Jewelry
Quaid-e-Azam Apparel Park	Punjab	Punjab Industrial Estates Development & Management Company (PIEDMC)	Textile and Apparel related industries
Naushehro Feroze Industrial Park	Sindh	National Industrial Parks Development & Management Company (NIP)	Agro Food Processing, Agro Non-Food Processing, Light Engineering, Mixed Used
Hattar Special Economic Zone	Khyber Pakhtunkhwa	Food and beverage, Agro-processing, Textile, Crockery, Paper printing, Chemical, Cement, Engineering	Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC)
M-3industrial City	Punjab	Faisalabad Industrial Estates Development & Management Company (FIEDMC)	Textiles, Engineering, Electrical & Electronic, Chemical & Paints, Food Processing, Pharmaceuticals, Automobiles, Packaging and Building Material
Rachna Industrial Park	Punjab	National Industrial Parks Development &	Auto Parts, Leather Products, Packaging and Food Processing

		Management Company (NIP)	units besides other auxiliary, industries, Mixed Used
Bhalwal Industrial Estate	Punjab	Punjab Industrial Estates Development & Management Company (PIEDMC)	Citrus Processing Industry, Frozen Concentrated Juice Industry, Pharmaceuticals, Seed & Crops Unit, Packaging Industry, Storage Industry, Paper Industry, Flour Mills, Plastic Products, Footwear, Textile, Warehouse
Vehari Industrial Estate	Punjab	Punjab Industrial Estates Development & Management Company (PIEDMC)	Handicrafts, Chemical Industry, Ginning Mills, Agro Based Industry, Shoe Industry, Pesticides, Pharmaceuticals, Packaging Industry, Storage Industry, Paper Industry, Flour Mills, Plastic Products, Textile, Cold Storage, Warehouse
Rahim Yar Khan Industrial Estate	RYK, Punjab	Punjab Industrial Estates Development & Management Company (PIEDMC)	Oil Mills, Chemical Industry, Ginning Mills, MDF Production, Wood Plastic Composite Production, Pesticides, Polypropylene Woven Bags, Pharmaceutical, Packaging Industry, Storage Industry, Paper Industry, Flour Mills, Plastic Products, Textile, Cold Storage, Warehouse
Rashakai SEZ Nowshera	Khyber Pakhtunkhwa	Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC)	Light Engineering, Automotive, Construction and Food Processing
Value Addition City	Faisalabad, Punjab	Faisalabad Industrial Estates Development & Management Company (FIEDMC)	Textiles, Engineering, Electrical & Electronic, Chemical & Paints, Food Processing, Pharmaceuticals, Automobiles, Packaging and Building Material
Oil Village SEZ	Rawalpindi, Punjab	Frontier Oil Company	Storage for Oil Marketing Companies

Source: BOI

Pakistan's Investment Climate

Incentives under Finance Bill 2020[30]

For SEZs

- Concessions and Exemptions available to the developers of SEZs may be extended to co-developers.
- Expansion in scope of items exempt from customs duty, that are imported for setting up of a Special Economic Zone (SEZ) by zone developers and for installation in that zone by Zone Enterprises has been proposed. In the PCT Code 9917, Para (2), the words 'plant and machinery' are proposed to be replaced with 'capital goods'. Whereas the definition of 'capital goods' in Part-1 of the Fifth Schedule to the Customs Act, 1969, has been expanded to include IT sector, storage communication and infrastructure development of SEZs by Zone Developer.

For Gwadar Free Zone[31]

- Inclusion of China Overseas Ports Holding Company and its operating companies namely Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited in the list of the financing agreement companies.
- Tax concessions and exemptions to be extended to Gwadar free zone.
- Zero rating of sales tax on supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof, provided that in case of supply to tariff area of Pakistan, tax shall be charged on the value assessed on the Goods Declaration for import.
- Machinery, equipment, materials and goods imported either for exclusive use within the limits of Gwadar Free Zone, or for making exports therefrom, subject to the conditions that such machinery, equipment, materials and goods, are imported by investors of Gwadar Free Zone, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (Act IV of 1969) and rules made thereunder shall, mutatis mutandis, apply. Provided also that if any of such goods is taken out of the Zone for purpose other than the -export, the tax on the same shall be paid by the importer.
- Zero rating of sales tax on supplies of locally manufactured plant and machinery to manufacturers in the Gwadar Free Zone.

For Construction Sector

- The definition of industrial undertaking has been amended to include construction sector, which will enable the sector to avail tax benefits available to an industrial undertaking.
- The slab of minimum turnover tax under section 113 and alternative corporate tax applicable on accounting profits under section 113c (income tax ordinance,2001) shall not apply to turnover, income, profits and gains of a builder or developer.

[30] https://invest.gov.pk/budget-brief-fy-2020-21#gallery-2
[31] Sixth Schedule of Sale Tax Act

- Holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years.
- Federal Excise duty on cement has been reduced to Rs. 1.75 per kg from Rs. 2 per kg
- Withdrawal of advance tax from steel melters and composite steel units.
- Excluding Engineering services from the list of specified services attracting withholding tax of 3% in case of a resident person providing such service
- An optional "Fixed Tax Regime' from tax year 2020 and onwards for eligible builders and developers on a project by project basis has been introduced on the income, profits and gains derived from the sale of buildings or sale of plots, from a new or incomplete existing project to be completed by 30th September, 2022.
- Dividend income paid to a person by a builder or developer shall be exempt from income tax and tax withholding obligations under section 150.
- Reduced rate of advance tax of 5% has been introduced for sales of immovable property through auction.
- Any tax payable on income, profits or gains of project of low-cost housing under NAYA Pakistan Housing & Development Authority or EHSAAS program shall be reduced by 90%.
- Eligible Developers and Builders shall be exempted from withholding taxes on purchase of building materials under section 153, subject to certain exclusions.
- No questions to be asked under section 111 of the Ordinance from the investors, regarding source of funds, making capital investment in new construction projects in the form of money or land, either as an individual, as an association of persons or a company, subject to certain conditions.
- First purchaser of building or unit of building shall also be immune from the provisions of section 111 where subject to fulfilment of other conditions, the payment is routed through crossed banking instrument for both new and existing incomplete projects.

Income Tax ordinance,2001 amended up to 30th June, 2020 of Pakistan: https://download1.fbr.gov.pk/Docs/2020114141139158611.T.OrdinanceAmendedupto(30-06-2020).pdf

Public Private Partnerships (PPPs)

Currently, Government of Pakistan is fully committed to enhance the attractiveness of the country for the private sector. On the world bank's index for quality infrastructure Pakistan is being nominated as the most improved country, for improving its rank from 58th position to 13th rank. The most improved indicator was for Private Infrastructure investment.

PPP at federal level

In 2016-2017, Public Partnership Authority Act was drafted to establish a regulatory framework to execute Public Private Partnerships. The act has set up transparent and effective procurement processes and institutional arrangements for PPPs in Pakistan

Scope and nature of PPP in Pakistan

The sectors eligible for PPP mode of procurement and development includes:

- Transport and logistics; including
- Mass Urban Public Transport;

- Local Government Services;
- Energy Projects;
- Tourism Projects;
- Industrial Projects;
- Irrigation Projects;
- The Social Infrastructure.

A number of PPPs exist in the country in various sectors, particularly in the traditional PPP area of infrastructure development, energy and telecommunication. More recently the use of PPP approach has been extended to physical infrastructure in social sectors, such as education and health facilities. Other examples include the Gwadar deep sea port and various container terminals (Qasim and Karachi) that have been implemented using a PPP model. In the railway sector, concessions exist in freight handling and maintenance as a PPP model. In the aviation sector only one PPP exists, i.e. Sialkot Airport Authority. Various toll roads in the country currently use the PPP model, such as the Islamabad Lahore and the Lahore-Faisalabad motorways. Moreover, a PPP feasibility study (financed by the Asian Development Bank [ADB]) for a new ring road in Rawalpindi combined with commercial and residential zones has recently been concluded. In the agriculture and agribusiness sector, a limited number of PPPs exist, most of which have been informally institutionalized under Ministry of Food Security and Research and the Ministry of Commerce. Most have been in operation for less than a decade. Some examples include a PPP for market infrastructure development between the Punjab Agriculture Department and the private partners TolLink. The Small and Medium Enterprises Development Authority (SMEDA) under the Ministry of Industry has also been involved in the development and implementation of various PPPs both in the food and non-food sectors. In the food sector, SMEDA has participated in developing a meat processing plant, a mango pulp factory and an agro-food processing plant (not yet fully operational). PPPs have also been in operation under various donor projects and a national agribusiness program. Gilgit-Baltistan in year 2020 has inked its first Public-Private Partnership deal with AKDN (industrial Promotion Services Asia) for new hydropower project.

Modes of PPPs allowed in Pakistan

a. Federal PPP ACT

No specific provision(s) under the Federal PPP Act

b. Punjab PPP Act

Build–Transfer; Build–Lease–Transfer; Build–Operate-Transfer; Build–Own–Operate; Build–Own–Operate–Transfer; Build–Transfer–Operate; Contract–Add–Operate; Develop–Operate–Transfer; Joint Venture; Management Contract; Rehabilitate–Operate–Transfer; Rehabilitate–Own–Operate and Service Contract

c. Sindh PPP Act

Build–Operate– Transfer; Design–Build–Finance–Operate; and Any other variant of PPP. Additionally, the following modes identified in Part IV of the Sindh Public Procurement Rules, 2010: Service Contract; Management Contract; Lease Contract; Build–Own–Operate; Build–Own–Operate, transfer; Build–Lease–Transfer; Build–Transfer; Rehabilitate–Operate– Transfer; and Any combination or variation of the above modes or any other arrangement under PPP mode approved by the Sindh Public Procurement Regulatory Authority

d. KPK PPP Act

Build–Operate– Transfer; Build–Own–Operate– Transfer; Design–Build– Finance–Operate; and Any other variant of PPP.

Section 3:

Pakistan's Trade Progress & Facilitation

Pakistan's Trade Performance

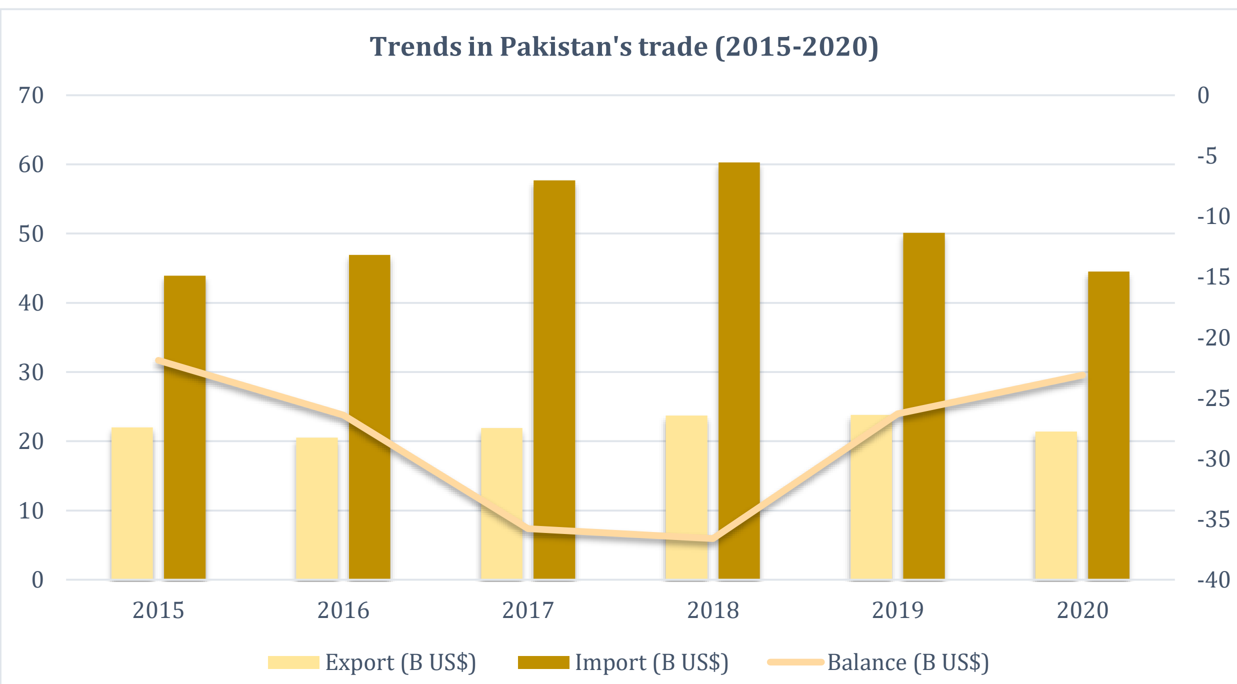
Strategically located between the Middle East, East Asia, Central Asia, and South Asia, Pakistan has a great potential to become regional trade and investment hub with more connectivity through land, sea, and air routes. Pakistan's trade with the world has gradually increased from year 2015 to year 2020. Global trade of Pakistan was US $ 77.6 billion in 2019. As compared to corresponding last year, imports have shrunk while exports have slightly increased. However, Pakistan has faced huge trade deficit with a negative trade balance of US$ 31.8 billion for 2019. In FY20, the trade deficit reduces by USD 8.7 billion to USD 23.1 billion.

Table 8: Yearly Trade overview of Pakistan

Indicator	FY15	FY16	FY 17	FY 18	FY 19	FY 20
Export (B US$)	23.6	20.8	20.4	23.2	22.9	21.4
Import (B US$)	45.8	44.7	52.9	60.8	54.7	44.5
Balance (B US$)	-22.1	-23.9	-32.5	-37.6	-31.8	-23.1

Source: Trade map

Figure 5: Trends in Pakistan's Trade Year-wise



Export Profile

Major export products of Pakistan are textile, Cereals, Leather, Fish, Surgical instruments, Salt, Minerals, plastic etc. At HS 6-digit level, the leading commodities exported from Pakistan includes rice and textile-based products. 6 out of 7 leading commodities are textile based in nature.

The export policy of Pakistan allows all items to be exported from Pakistan except those listed in Schedule-I of the policy under 22 different categories[32].

Conditional permission is allowed for Wild boars, pet dogs and cats, onions, mangoes, kino, rice, poppy seeds, vegetable ghee and cooking oil, cotton, metals, arms and ammunition, materials used in biological weapons, Unmanned Air vehicle, Nuclear substances, equipment for the production of nuclear energy, precious and semi-precious stones and gold jewelry, surgical instruments, fruits in retail packing, Ethanol and products from cane molasses and tobacco and tobacco products.

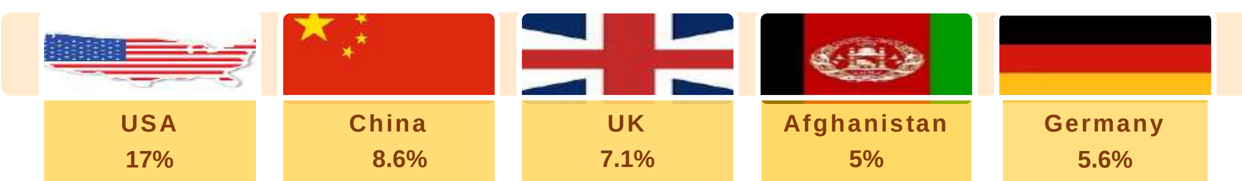
Import Profile

Major import categories of Pakistan are mineral fuels, electric machinery and its parts, iron and steel, organic chemicals and plastics.

At HS 6-digit level, the leading commodities imported in Pakistan include energy yielding products like petroleum oil, light oils, natural gas, medium oils, and palm oils. Other imported commodity having imported worth of more than 1 billion USD are telephones.

The import policy of Pakistan allows all items to be imported to Pakistan except those specified in appendix A of import policy 2020. under 73 different categories.[33] Items under the scope of Ministry of National Food Security and Research are importable under the restriction of inspection and permits. There are 354 such product headings in the import policy of 2020 (mentioned in Part III). Items under 38 headings are imported only after fulfilling some procedural requirements (part II of Appendix B of import policy 2020). These includes petroleum oils, motor spirit, furnace oil, finished lubricants, raw material for pharma, used tyres, security paper, cigarette making paper, gold and silver in bulk, components of agricultural tractors, bullet proof material, second hand vehicles, solar photovoltaic cells, slag ash and residues.

Importing Partners



Exporting Partners

32 Export Policy 2020 https://drive.google.com/drive/u/1/folders/1tDfDcXMNg4Rt6fRnyRcwALjcs-oehLXG

33 Import Policy 2020 https://drive.google.com/drive/u/1/folders/1tDfDcXMNg4Rt6fRnyRcwALjcs-oehLXG

Trade Promoting Agency: Trade Development Authority of Pakistan

The Trade Development Authority of Pakistan (TDAP), which was established on November 8, 2006, under a Presidential Ordinance, with Ministry of Commerce as its administrative ministry. TDAP is the successor organization to the Export Promotion Bureau (EPB) and is mandated to have a holistic view of global trade development rather than only the 'export promotion' perspective of its predecessor. Designated as the premier trade organization of the country, TDAP is a dedicated, effective, and an empowered professionally managed organization

Activities

- Participation in International Trade exhibitions
- Receives and arranges Trade delegations
- Organizes EXPO Pakistan annually
- Runs Expo Center Karachi
- Implements Trade policy initiatives
- Undertakes Sector development projects

Recent Publications

To play its part in the knowledge economy, TDAP is actively initiating research based programs, trainings, workshops and webinar to prepare Pakistani exporters to grab emerging opportunities across the globe.
The recent publications of TDAP in this regard are:

- Step-by-Step Guide for Exporters (Export Procedures)
  https://tdap.gov.pk/wp-content/uploads/2020/12/Step-by-Step-Guide-for-New-Exporters-Export-Procedures.pdf

- Export Facilitation Manual based on FBR's Facilitation Schemes
  https://tdap.gov.pk/wp-content/uploads/2020/12/Export-Facilaition-Scheme-Manual-2.pdf
- Duty Drawback Manual -Textile Exports based on MOC SRO
  https://tdap.gov.pk/wp-content/uploads/2020/12/Duty-Drawback-Manual-Textile-Exports-1.pdf

- Duty Drawback on Local Taxes and Levies-Non-Textile based on MOC SRO.
  https://tdap.gov.pk/wp-content/uploads/2020/12/Duty-Drawback-on-Local-Taxes-and-Levies-Non-Textile-1.pdf

- National Exporters Training Program
  https://tdap.gov.pk/national-exporters-training-program/

Export Facilitation

In order to improve and enhance exports from Pakistan, exporters have been given calculated facilities/incentives. The objective of these facilities/incentives is to make exports zero-rated, which means that the impact of tax paid is netted off by subsequently allowing refund or input adjustments equivalent to the tax already paid.
The major facilities/incentives available to exporters at present are:

A. Export Facilitation Schemes by Federal Board of Revenue (FBR)

Federal Board of revenue has simplified and automated various export facilitation regimes. The schemes provide wide range of choices to the commercial exporters as well as to the manufacture-cum-exporters who could opt the most suitable scheme as per their business requirement.

i. Manufacturing Bonds Scheme (SRO 450(I)2001 Dated 18.06.2001)[34]

This scheme is open for all sectors. The scheme allows manufacture-cum-exporters to import duty free input material for subsequent export of value added products. They are required to operate in a licensed custom bonded area. The licensee is required to obtain a certificate called "Analysis Certificate" from the regulatory authority. Under the scheme, procurement, manufacture export and removal of goods is allowed in the following manner (rule 352)

I. the input goods may be imported by the licensee without payment of custom duty, federal excise duty and sales tax after declaring on the bill of entry that input goods are being imported under manufacturing bond for manufacture of export goods.
II. the input goods produced from the local excisable unit may be procured by the licensee without payment of central excise duty.
III. the sales taxable goods meant for further processing shall be supplied to the licensee of the manufacturing bond against a tax invoice after payment of sales tax and the licensee shall be entitled for refund of input tax credit in accordance with the Sales Tax Refund Rules, 2000.
IV. the licensee may procure duty paid input goods manufactured locally, in addition to duty-free input goods for production of finished goods and if duty drawback and rebate of federal excise duty is admissible on export of such finished goods on the basis of standard duty drawback and rebate notifications, the f.o.b value for claiming such duty drawback and rebate shall be the value excluding value of the duty-free goods imported under these rules.

The scheme allows 40% sale of manufactured goods in the local market. For local sale exporters are bound to pay the duty and taxes. Local sale of raw materials is permissible for leftover stock in exceptional circumstances and are subject to prior approvals. All processes from filing of export application to the stage of final export are fully automated.

ii. Export Oriented Units(EOU) and SMEs (SRO 327 (I)/2008 DATED 29.03.2008)[35]

This scheme promotes Small and Medium enterprises. With the duty free inputs, this scheme also facilitates the exporters for duty free import of Property, plant and Equipment as well as duty and tax free import of coal, diesel, gas, furnace oil, coke or coal and carbon blocks used in the manufacturing process. The schemes allow exporters to supply goods to other exporters availing other facilitation schemes like Manufacturing Bond and DTRE. Under the scheme, procurement, manufacture export and removal of goods is allowed in the following manner:

I. The input goods may be imported by the licensee without payment of customs duty, sales tax, federal excise duty and income tax after declaring on the goods declaration that such input goods are being imported for export oriented unit for manufacture of export goods.
II. Transfers are allowed for goods from the units operating or DTRE Rules or a Customs Bond to another Export Oriented

Pakistan' Trade Performance

[34] https://download1.fbr.gov.pk/Docs/2019124171277534SRO450(I)2001ManufacturingBond(Uptodate(1)-converted.pdf
[35] https://download1.fbr.gov.pk/Docs/20191241712547231SRO327(I)2008EOU(Uptodate)-converted.pdf

Unit without payment of customs duty and other taxes against an indemnity bond.

III. The licensee may procure customs or federal excise duty-paid input goods manufactured locally for production of output goods and the licensee shall be entitled to payment of drawback of such duties.

IV. The exemption from customs-duty, sales tax, federal excise duty and income tax, is granted for plant, machinery, equipment and apparatus, including capital goods to be used solely within the limits of an Export Oriented Unit.

Under the scheme, 20% of local sale is allowed on payment of duty and taxes.

iii. Duty and Tax Remission for Export (DTRE) Scheme sub-chapter 7 of Chapter XII of SRO 450(I)/2001 DATRED 806.2001[36]

This scheme is available for imported inputs, locally purchased goods and services including gas, electricity, diesel, furnace oil, coal and coke of coal. This scheme can be availed by wide number of businessmen i.e. Sales Tax registered exporters, commercial exporters, contracted vendors of foreign manufacturers and persons engaged in value addition, EPZs[37], projects entitled to duty-free inputs and supplies made by indirect exporter[38] direct exporter.

iv. Temporary Importation Scheme SRO492(I)/2009 dated 13.06.2009[39]

This scheme entails exemptions from all duties on import of accessories used for manufacture of exportable goods. The input goods include accessories used in ready-made garments, textile made ups and foot wears The facility is also available for components or sub-components for assembly of machinery, electrical equipment, bicycles, aluminum ware, steel ware, kitchen utensils, surgical instruments, toys, decorative materials, stationary items etc. meant for export.

v. Export Processing zone rules[40]

All types of machinery, equipment, materials to be used solely within the limits of a zone and the goods for warehousing purposes can be imported duty free.

Goods from tariff area, required for further processing in a zone, can be admitted after completion of export formalities like Export GD and Import GD. Local sale up to 20% has also been allowed.

Vehicles can be imported duty free as per the entitlement given in the table below:

Sr. no	Quantum of Investment in EPZ	Vehicles allowed
1	US$ 10.00 million or more up to US$ 25 million	03
2	more than US$ 25 million but less than US$ 50 million	05
3	equal to or more than US$ 50 million but less than US$ 75 million	10
4	equal to or more than US$ 75 million but less than US$ 100 million	15
5	equal to or more than US$ 100 million but less than US$ 125 million	20
6	equal to or more than US$ 125 million	25

[36] https://download1.fbr.gov.pk/Docs/201912416125613694DTRERules-updatedversion-upto12.09.2019-converted.pdf
[37] Export processing zones
[38] Indirect exporter means a manufacturer or supplier of goods or articles which are to be used as input for export
[39] https://download1.fbr.gov.pk/Docs/20191241712414209Notification-Standard-492-Updatedupto31stjuly,2019-converted.pdf
[40] https://download1.fbr.gov.pk/Docs/20191241612575168ExportProcessingZonesRules(1)-converted.pdf

B. Export Refinancing Schemes by State Bank of Pakistan (SBP)

In order to ensure smooth flow of credit to exporters State Bank of Pakistan has introduced various credit schemes. Export Finance Scheme, Islamic Export Refinance Scheme, Scheme for Long Term Financing for Export oriented Projects.

i. Export Refinance Scheme

This is a short-term financing facility by State bank of Pakistan, which provides refinancing facility for 180 days for direct exporters and 120 days for indirect exporters at the current mark-up rate of 3%. Any exporter (Direct or Indirect[41]) can avail the facility through any of commercial bank, after fulfilling collateral requirements of the bank for commodities not listed in "negative list" (Negative list for Export Refinancing Scheme https://www.sbp.org.pk/bpd/2003/efs-negative.pdf).

The Scheme is available under two parts.

Part-I of ERS

Financing under Part I of the Scheme is a transaction-based facility. The finance is granted by the bank to the exporter on the basis of a Firm Export Order / Export Letter of Credit, for a maximum period of 180 days. The financing facility can be availed at pre-shipment stage for procuring inputs and manufacturing the goods to be exported. Financing at Post Shipment stage is also granted against goods already shipped to the importer abroad, for the period up-to realization of export proceeds or 180 days, whichever is earlier

Part-II of ERS

Under Part-II of the Scheme, a revolving finance limit is sanctioned to the exporter equivalent to 50% of his export performance during the previous year on July -June basis. Exporters can avail this financing facility for a period of 180 days. Facility once availed needs to be repaid in totality. Exporters having availed Part-II facilities have to export / ship eligible goods and realize export proceeds and submit the evidence of performance on the prescribed statement within two months from close of each financial year.

ii. Islamic Export Refinancing Scheme

The IERS caters the needs of the exporters who wish to avail finances under Shariah compliant modes. Exporters can avail the scheme from participating Islamic Banks or Islamic Banking branches of Commercial banks, if the exporter fulfills the criteria stated in the scheme for Musharika Pool (no fixed rate) and can finance their purchases for maximum period of 180 days for a Direct exporter and 120 days for indirect exporter against eligible commodities. Musharika Pool under the IERS is a pool consisting on minimum 10 Blue Chip Companies with diversified line of businesses to whom the Islamic Bank have provided financing facilities on Shariah compliant modes.

The criteria for selection of blue chip companies for the Musharika Pool is as under:
-

(a) No CIB report or export over dues that are not realized over a period of more than one year

(b) should fulfill at least one of the following three conditions;

- good record on the stock exchange,
- a credit rating of B+
- an average ROE higher than the rates on EFS

Pakistan' Trade Performance

[41] on the basis of Standardized Purchase Order (SPO) or the Inland Letter of Credit (ILC) to be established by the Direct Exporter against the particular Export Order/Contract/Letter of Credit. IDE will be eligible to avail finance from banks against ILC or SPO, to the extent of the amount mentioned therein. The period of financing by bank to an Indirect Exporter shall be determined as per the terms of the relevant ILC/SPO, but subject to a maximum of 120 days.

iii. Long Term Financing facility for Plant and Machinery (LTFF)

As the name indicates, this is a long term financing scheme. Financing is available for export-oriented projects[42] to an extent of Rs. 5 billion for purchase of imported and locally manufactured new plant and machinery for a maximum period of 10 years (inclusive of grace period). For this scheme, State Bank has fixed an annual mark-up rate of 5 percent.

iv. Islamic Long Term Financing Facility for Plant and Machinery(ILTFF)

State bank of Pakistan facilitates the exporters for long term financing based on Shariah laws. The scheme provides 10 years of currency finance facility for imported as well as locally manufactured Plant and machinery by export oriented projects.

Sectors eligible ILTFF scheme are:

Core categories

- Textile and Garments (Fabric, garments, made-ups, Towels, Art Silk and synthetic)
- Rice Processing
- Leather and leather products
- Sports goods
- Carpets and wools
- Surgical instruments

Development categories

- Fisheries (boat manufacturing/ modification and chilling equipment)
- Meat and Poultry (hatching purposes and equipment for preservation / packing / canning chicken & meat)
- Fruits/Vegetable & Processing, Cereals
- IT software and services (Hardware & equipment for IT & Services sector exports)
- Marble & Granite (cutting and polishing of marble & granites and of handicrafts)
- Gems and Jewelry
- Engineering Goods

Other sectors

Generators / Captive Power Plants, used in eligible sectors. Ethanol, Furniture, Pharmaceutical, Spinning and Ginning sectors, Regeneration of textile waste, Glass sector, Dairy sector and Soda ash.

Other relief measures to fight the COVID-19 by State Bank of Pakistan

Government of Pakistan has announced a "Temporary Economic Refinance Facility" to stimulate investments in post COVID period. Under the scheme the banks will facilitate the investor for investment in new industrial units by financing purchase of new imported or locally manufactured plant and machinery at the maximum rate of 7% (SBP refinance rate is 3%) for 10 years. This scheme is available for all manufacturing industries, with the exception of power sector.

C. Duty Drawback Schemes by Ministry of Commerce

To facilitate exporters, Ministry of Commerce has provided the facility of duty drawback on local taxes and levies to both textile and non-textile sector.

Ministry has issued, in this regards:

i. "SRO. 711(I)/2018" dated June 8th, 2018 for non-textile sector

The categories eligible for DTRE includes: gloves; footballs and other sports goods; leather garments; footwear; cutlery; electrical fan; transport equipment; auto parts and accessories; machinery including electrical machinery; furniture; stationary; fruits and vegetables and meat and meat preparations.

ii. Notification No.1(42-B) TID/18-TR-II" for textile sector

The scope of the notification extends to textile based products under three broad categories

[42] Allowed as per Export Policy order issued by MoC

namely Garment, Made-ups, and Processed fibers.

The duty drawback under the aforementioned SROs and notifications is allowed for the shipments made from 1st July, 2018 to 30th June, 2021. The scope of the facility has been extended to include even the export processing zones of the country. Under the facility, 50% of the drawback is directly given to the exporter while certain conditions are put in place for the remaining 50% of the drawback. An increment of 10% or more in the export performance from the previous year is required in order to be eligible for the remaining 50% of the drawback. In case the exporter has targeted non-traditional markets an additional 2% drawback is allowed.

Non- traditional markets in this regard includes: 58 African markets, 40 Latin American markets and 8 Commonwealth of independent states.

D. Import Tariff Rationalization

In order to enhance the competitiveness of the domestic industry and to facilitate the manufacturers-cum-exporters Government of Pakistan has gradually liberalized tariffs. The number of general tariff slabs are gradually reduced.

In the Finance Act FY2019-20, tariff on 1,635 tariff lines comprising raw materials and capital goods was reduced from 3% to 0%. The current four duty slabs are 3%, 11%, 16% and 20%, with a large number of tariff lines subject to additional duty of 2%, 4% to 7%.

E. Imported items exempted for Sales tax

All goods imported into Pakistan are liable to sales tax at the time of import, except goods specifically exempted under section 13 as mentioned in Sixth Schedule of the Sales tax act, 1990 (amended up to 30th June,2020).

(See: exempted imports along with the PCT codes)

https://download1.fbr.gov.pk/Docs/2020812168165722SalesTaxAct,1990updatedupto(30.06.2020)--.pdf

F. Imported items exempted for Federal Excise duty

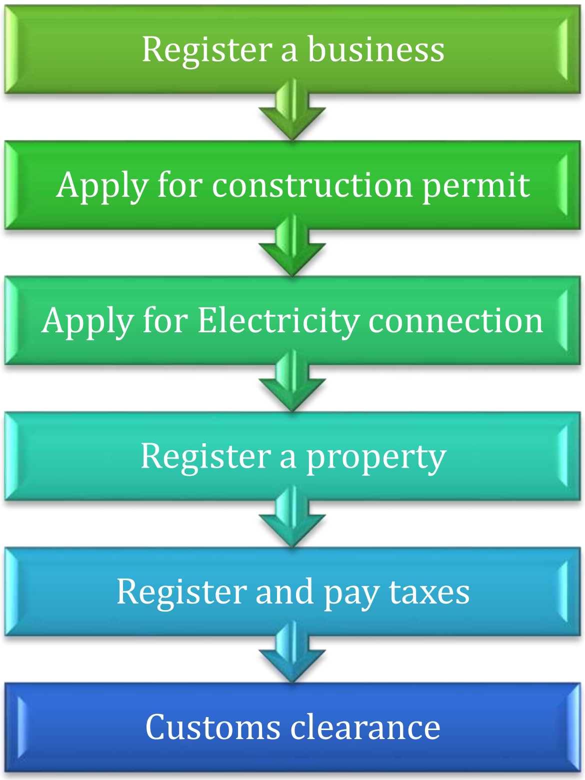
Goods imported in Pakistan are subject to federal excise duty. Finance act 2007 has exempted imported goods from such compulsion. Currently only a limited number of items face FED in Pakistan. The list of such items is included in the First Schedule of Federal Excise Act, 2005 (amended up to 30th June,2020).

(See: list of excisable imports along with duty rate)

https://download1.fbr.gov.pk/Docs/2020812168190190FEDAct,2005updatedupto30-06-2020--.pdf

Section 4:
Doing Business in Pakistan

Steps to Start Business in Pakistan



New to doing business in Pakistan?

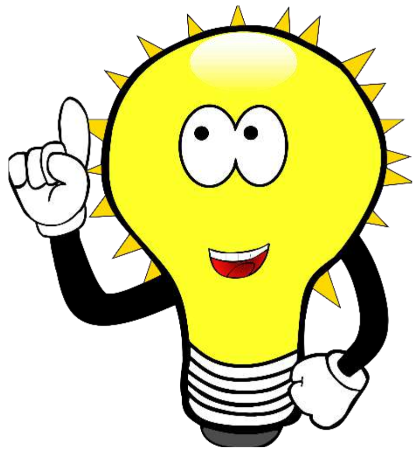


Figure 6: Steps to start business in Pakistan

Step 1: Register a business

Relevant agencies

1. Register Limited Liability company: Security & Exchange Commission of Pakistan[43]
2. Register Unlimited Liability Company:
    a. Ease of doing business, Government of Sindh[44]
    b. Ease of doing business, Government of Punjab[45]

Step 2: Apply for construction permit

Relevant agencies

1. Apply permit in Sindh: Sindh Building Control Authority[46]
2. Apply permit in Punjab:

[43] https://eservices.secp.gov.pk/eServices/
[44] http://business.sindh.gov.pk/
[45] https://register.business.punjab.gov.pk/
[46] https://sbca.gos.pk/

a. E-Khidmat Centers[47]
b. Lahore Development Authority[48]

Step 3: Apply for electricity connection

Relevant agencies

1. Apply connection in Sindh: Karachi Electric (K-electric)[49]
2. Apply connection in Punjab: Lahore Electric Supply Company (LESCO)[50]

Step 4: Register a property

Relevant agencies

1. Register a property in Sindh: Board of Revenue Sindh[51]
2. Register a property in Punjab: Punjab Land record Authority[52]

Step 5: Register and pay taxes

Relevant agencies

1. Register, File and pay taxes online: FBR IRIS Porta[53]l
2. Register and file sales tax online: FBR eFile Portal[54]

Step 6: Customs Clearance

Relevant agencies

1. FBR's WeBOC Portal[55]

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47 https://fc.punjab.gov.pk/
48 https://www.lda.gop.pk/
49 https://www.ke.com.pk/
50 http://www.lesco.gov.pk/
51 https://sindhzameen.gos.pk/
52 https://www.punjab-zameen.gov.pk/
53 https://iris.fbr.gov.pk/public/txplogin.xhtml
54 https://e.fbr.gov.pk/AuthLogin.aspx
55 https://www.weboc.gov.pk/(S(3tqg1ppt5rxd3mqksrj54gcs))/Login.aspx

Pakistan's Doing Business in DB 2020

Pakistan is constantly making efforts to improve business environment in the country in collaboration with World Bank, International Finance Corporation and UKaid. Since 2016, almost 300 reforms have been implemented to improve investment climate in the country. During last year, Pakistan advanced 28 places to 108th place on ease of doing business global ranking. On the measure of absolute progress towards best practice, Pakistan has improved its score from 55.31to 61.00 and was recognized as the top reformer in South Asia and sixth reformer in the world. The improved performance indicators for year 2020 are:

1. **Starting a business**: Pakistan made starting a business easier by expanding procedures available through the online one-stop shop. This reform applies to both Karachi and Lahore. Furthermore, Pakistan has abolished the Labor Department registration fee for Lahore.

2. **Dealing with Construction Permits:** Pakistan made obtaining a construction permit easier and faster by streamlining the approval process and also made construction safer by ensuring that building quality inspections take place regularly in Karachi. While in Lahore the operational efficiency has been improved by establishing one-stop shop for construction permitting.

3. **Getting Electricity**: Pakistan made getting electricity easier by enforcing service delivery time frames and by launching an online portal for new applications. Pakistan also increased the transparency of electricity tariff changes. This reform applies to both Karachi and Lahore.

4. **Registering Property**: Pakistan (Karachi) made property registration faster by making it easier to execute and register a deed at the Office of the Sub-Registrar. Pakistan (Lahore) made registering property easier by increasing the transparency of the land administration system.

5. **Paying Taxes**: Pakistan made paying taxes easier by introducing online payment modules for value added tax and corporate income tax, and less costly by reducing the corporate income tax rate. This reform applies to both Karachi and Lahore.

6. **Trading across Borders**: Pakistan made trading across borders easier by enhancing the integration of various agencies in the Web-Based One Customs (WEBOC) electronic system and coordinating joint physical inspections at the port. This reform applies to both Karachi and Lahore.

6th EODB Reform Plan for DB 2022

6th reform plan has been devised, in consultation with all federal and provincial stakeholders, private sectors and world bank local team for the doing business report 2022, containing more than 90 reform actions across all 10 business indicators.
The 6th plan for DB 2022 involves:

Table 9: Reforms for DB 2022 to be completed in year 2020

DB indicator	Reforms for DB 2022 to be completed in year 2020
Starting a business	✓ PITB[56] is integrating Punjab Business Registration Portal with FBR
Dealing with construction permit	✓ LDA[57] is making it mandatory to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use. ✓ SBCA[58] and LDA is introducing GIS for eliminating initial physical inspection of site. ✓ LDA is also trying to introduce online payment system through all banks
Getting Electricity	✓ K. E[59] is updating interactive interface for more proactive and transparent communication
Registering property	✓ BOR/PIBT are fully automating the process of issuance of stamp duties. ✓ BOR[60] Sindh is launching an online application for issuance of Sale Certificate.
Getting credit	✓ E-registry has been operationalized this will improve the strength of legal rights index for Pakistan ✓ SBP is expanding e-CIB capacity to maintain overdue/default history for a period of 2 years. ✓ SBP is also sharing of data from utilities and retail companies with the Private Credit Bureaus

[56] Punjab Information Technology Board
[57] Lahore development Authority
[58] Sindh Building Control Authority
[59] K-electric
[60] Board of Revenue

Protecting Minority investor	✓ Related party regulations have been amended to enhance disclosure and transparency
Paying Taxes	✓ FBR has simplified tax regulations, reduced VAT return filing time to 49 hours, reduced withholding tax transactions, and started issuing corporate tax refunds through direct bank transfers.
Trading across borders	✓ FBR/Customs is trying to introduce the idea of packing and repacking of goods by single agency as per the international practice. ✓ Smart Examination systems at ports is to be improved to reduce clearance time
Enforcing Contracts	In order to operationalize commercial courts with legal support, Commercial law is under review and approval in Punjab. Other reforms include: ✓ E-filling of claims, reduction of filing and service timeframe to 6 days, trial and judgement time frame to 118 days, enforcement of judgement timeframe to40 days ✓ Introduction of case management practices to address delays during the trial period ✓ Introducing financial incentives for the parties to attempt mediations ✓ Introducing e-filling of initial complaints in commercial cases ✓ Introducing pretrial conferences as a critical element of case management
Resolving Insolvency	SECP is creating awareness about insolvency related laws amongst corporate entities and legal practitioners.

Source: https://pakistandoingbusiness.com/

Section 5:

Pakistan's Companies Act

Companies Act, 2017

Pakistan had adopted its first Companies Act of 1913 right after its creation in 1947. The Companies Act, 1913 remained in operation and existence until the Companies Ordinance, 1984 was promulgated to regulate the corporate entities in Pakistan. The Companies Ordinance, 1984 was a major breakthrough in terms of streamlining of corporate laws keeping in view the local business environment and it governed the corporate regime for more than three decades.

To incorporate the changes of the modern time, another act promulgated in, 2017 which replaced the Companies Ordinance, 1984. In continuation of those efforts, the most recent development is the promulgation of Companies (second Amendment) Ordinance. These amendments have been made in the context of Ease of Doing Business. At the same time, certain powers previously given conferred on the Minister in Charge to ease out the process have now been taken away, in most of the cases.

The Companies act 2017[61], with 515 sections and 8 schedules, facilitates corporatization and promotes development of corporate sector, encourages use of technology and electronic means in conduct of business and regulation thereof, regulates corporate entities for protecting interests of shareholders, creditors, other stakeholders and general public, inculcate principles of good governance and safeguard minority interests in corporate entities and provide an alternate mechanism for expeditious resolution of corporate disputes and matters.

Main facilities provided in the law includes:

Mode of forming a company

- Three or more persons may form a public company
- Two or more persons may form a private company
- One person may form a single member company

A company formed may be a company with or without limited liability, that is:

a) a company limited by shares;
b) company limited by guarantee; or
c) An unlimited company

Incorporation

Incorporation is made easier as:

- Process of company registration is simplified by filling one form with model memorandum[62] and article of association.
- The memorandum should state the principle line of business and any change. subsequently to be notified within 30 days.
- The company can engage in any lawful business as per section 26.
- Directors and CEO to be appointed at the time of incorporation and no separate filling is required subsequently.
- Registered address is not required at the time of incorporation and application can be filed using correspondence address only.
- Share money to be deposited within 30 days of incorporation.
- Receipt of subscription money to be certified by a chartered accountant or a cost or management accountant within 45 days of incorporation.
- Registered office to be intimated within 30 days of incorporation.

Pakistan's Companies Act

[61] Companies Act, 2017

[62] —memorandum|| means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of company law or of this Act;

Commencement of business by a public company (section 19)

Public limited company is required to obtain Certificate of Commencement of business before starting business. For private businesses acceptance of documents by the registrar is the conclusive evidence for a company to start business and no certificates are required.

Documentation

Memorandum and Articles

As per the Act the process of alteration in Memorandum of Association[63] and Articles[64] is simplified as:
Alteration would take effect by special resolution

- Change in principle line of business does not require approval from commission, only amended memorandum to be filled with the registrar within 30 days.
- Where change is related with change in place of registered office or adoption of any business activity or any change therein which is subject to license, registration, permission or approval under any law require approval from Commission.
- A copy of the altered articles of association shall within 30 days of from the date of passing of resolution, be filled with the registrar for registration as articles of association of company.

Prospectus[65]

The Act requires the company to get its prospectus duly signed by every person who is named therein as a director or proposed director of the company and has been filed with the Registrar on or before the date of its publication.

Certificate of Shares[66]

The Act reduces the time limit for every company for the issue of certificates from 90 days to 30 days after the allotment of any of its share and other securities and ensure delivery of the certificates to the person entitled thereto at his registered address.

Meeting and Procedures

Statutory Meeting

The meeting shall be convened within a period of 180 days from the date at which company is entitled to commence business or within nine months from the date of its incorporation whichever is earlier.
Under the Ordinance the statutory meeting was required to be held within a period of not less than 3 months nor more than 6 months, from the date of commencement of business. Where first annual general meeting of a company is decided to be held earlier no statutory meeting shall be required. Further statutory report is required to be certified by the Chief Executive Officer and at least one Director, and in case of listed company also by the Chief Financial Officer.

Annual General Meeting / Extraordinary General

Meeting within period of 16 months from the date of its incorporation a company is required to hold its first annual general meeting. Previously it was required to be held within a period of 18 months from the date of incorporation. Subsequent meetings are required to be held every year within a period of 120 days from the date of closure of

[63] Section 32
[64] Section 38
[65] Section 57
[66] Section 71

financial year. The requirement of holding the subsequent annual general meeting within 15 months after the holding of its last preceding annual general meeting is no longer applicable. Single member company is exempted from the requirements to hold annual general meeting. Previously it was expressly stated that notice of an extraordinary general meeting be sent to the members at least 21 days before the date of the meeting and in case of an emergency affecting the business of the company, the registrar on application of directors authorize such meeting be held at such shorter notice as specified. However, such requirement is no longer specified. Further for companies other than listed companies if all members entitled to attend and vote at any extra ordinary general meeting so agree the meeting may be held at a shorter notice. listed companies are required to hold AGM only in the town where registered office is situated. Commission can allow to hold AGM in any other city.

Quorum of General Meeting

(1) The quorum requirement of a general meeting also takes into account members attending through video-link in addition to members present personally.
(2) The quorum of a company not having share capital shall be as provided in its articles.

Proxies

The provision on proxies shall continue to be not applicable in the case of a company not having a share capital unless the articles of the company provide otherwise. These powers under the articles were not available in the Ordinance

Key Personnel

MEMBERS[67]

A complete and comprehensive definition of "member" has been inserted in the statute, with clarity that on the registration of a company, the subscribers of the memorandum shall become its members.

DIRECTORS

(a) Now, foreign persons who are not required to hold NTN[68] are no more ineligible to become director of a company. The Clause of ineligibility of a person, who is or whose spouse is engaged in business of brokerage is extended to include Future Market Brokers and their spouses.
(b) A person representing a creditor or other special interests by virtue of contractual arrangements and a person representing a member which is not a natural person are eligible to be a director even if he is not a member of the company.

Minimum number of directors

Minimum number of directors in case of public limited company is 7 while it is 2 in case of private limited company. Additionally, public interest companies shall be required to have female representation on their Board as may be specified by the Commission, and only natural person shall become a director.

Disqualification of Director

Through second amendment ordinance 2020 in July 2020, SECP has been empowered to disqualify a director in the following cases:

Pakistan's Companies Act

[67] Section 118
[68] Section 153 of companies' amendment act, May 2020 https://cdn-cms.crowe.com/pk/-/media/Crowe/Firms/Asia-Pacific/pk/CroweHorwathPK/1Updates/Companies-Act-2017--Significant-Amendments-May-2020.pdf?la=en-GB&modified=20200627142942&hash=574BDC760EA5D9C2B2126D938FAA370014E28DF9

1. against a person who entered into plea bargain arrangements with NAB;
2. that it is expedient in the public interest so to do.

CHIEF EXECUTIVE

Appointment of subsequent chief executive
The subscribers to the memorandum determine the name of the first chief executive and the particulars, submitted along with incorporation documents. The first chief executive hold office till the 1st AGM of the company. The Federal Government has been empowered to appoint Chief executive of a Public Sector Company in such a manner as may be specified under this Act. The subsequent chief executive for the next term of 3 years be appointed by the directors within 14 days from the date of elections. The Chief Executive appointed on casual vacancy hold that office till the directors elected in the next election appoint a chief executive.

Removal of chief executive
Notwithstanding anything contained in the law, the Government or an authority or a person authorized by it have the power to remove chief executive of a company where more than seventy-five percent of the voting rights are held by the Government.

Chairman in a listed company
The board of listed companies appoints the chairman from amongst the non-executive directors within 14 days from the date of election of directors, who holds office for a period of three years unless he earlier resigns, becomes ineligible or disqualified under any provision of the Act or removed by the directors. The chairman and the chief executive shall not be the same individual except where provided for under any other law and the board is required to clearly define their respective roles and responsibilities. The chairman shall be responsible for leadership of the board and ensure that the board plays an effective role in fulfilling its responsibilities. Every financial statements of the company is required to contain a review report by the chairman on the overall performance of the company and effectiveness of the role played by the board in achieving the company's objectives.

SECRETARY

Requirement for appointing a company secretary having the specified qualifications has been extended to all public companies instead of listed companies only mentioned in the Ordinance 1984. SMCs have been exempted from appointing company secretary.

AUDITORS

Appointment, removal and fee of auditors
The first auditors now to be appointed within ninety days of incorporation against 60 days in previous Ordinance. The requirement of sending the representation of retiring auditors, (when they are not proposed to be reelected) to the members has been abolished. Reading of the representation of retiring auditors in the meeting shall serve the purpose. Time frame of 30 days has been prescribed to fill the casual vacancy of auditor. In case of removal, the auditor shall only be removed with the approval of the Commission. In addition to it, the law also permits a member (of listed company) having not less than 10% shareholding of the company to propose any auditor or auditors for appointment whose consent has been obtained by him and a notice in this regard has been given to the company not less than 7 days before the date of the annual general meeting. Such a notice is also to be posted on the company's website

Qualification and disqualification of auditors

Conditions have been prescribed for the qualification and disqualification of auditors, such as the qualification of an auditor for public company or a private company which is subsidiary of a public company or a private company having paid up capital of Rs 10,000 000 or more is a chartered accountant having valid certificate of practice from the Institute of Chartered Accountants of Pakistan or a firm of chartered accountants. Audit of private company having paid up capital of less than Rs. 10,000,000 can be conducted by either a Chartered Accountant or Cost Management Accountant. Previously it was not defined and anyone could conduct audit of private companies having paid up capital below Rs. 3,000,000. The auditor will continue to be appointed by the firm name. Majority of the partners of such firm should hold a valid practice license. Previously this requirement was for all the partners. As regards disqualification of auditors, these conditions now include inter alia a person who has given a guarantee or provided any security in connection with the indebtedness of any third person to the company other than in the ordinary course of business of such entities; a person or a firm who, whether directly or indirectly, has business relationship with the company other than in the ordinary course of business of such entities; a person who is not eligible to act as auditor under the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan

Rights of auditor

Additional rights have been given to the auditors to call for and obtain information from officers and employees of the company as well as from the subsidiary companies and its officers and employees

Duties of auditor

the law obligates the company's auditor, within 14 days of appointment to submit a copy of the consent letter given to the company, to the registrar. A company's auditor shall conduct the audit and prepare his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan. Additional requirements - A company's auditor must carry out such examination to enable him to form an opinion as to: whether adequate accounting records have been kept by the company and returns adequate for their audit have been received from branches not visited by him; and whether the company's financial statements are in agreement with the accounting records and returns. The auditor shall express unmodified or modified opinion in his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan. The Commission may by general or special order, direct, that the statement of compliance, shall be reviewed by the auditor who shall issue a review report to the members on the format specified by the Commission

Audit of cost accounts The audit of cost accounts shall not be mandatory but shall be directed by the Commission subject to the recommendation of the regulatory authority supervising the business of relevant sector

Compliance

Code of Corporate Governance

The Commission is expected to provide a framework to ensure good corporate governance practices, compliance and matters incidental and axillary for companies or class of companies in a manner as may be specified.

Restrictions and prohibitions

Restriction on transfer of shares by the members of a Private Company[69]

The law restricts the right of transfer of shares in a private company by members and provides a process to enable members to transfer their shares in a private company. The main points of in this regard are highlighted below:

(1) A member of a private company desirous to sell any shares held by him shall intimate to the Board his intention through a notice.

(2) On receipt of such notice, the Board, within a period of ten days, shall offer those shares for sale to the members in proportion to their existing shareholding.

(3) The letter of offer for sale specifying the number of shares to which the member is entitled, price per share and limiting a time, within which the offer, if not accepted, be deemed as declined, shall be dispatched to the members through registered post or courier or through electronic mode.

(4) If the whole or any part of the shares offered is declined or is not taken, the Board may offer such shares to the other members in proportion to their shareholding.

(5) If all the members refuse to accept the offer or if any shares are left over, such shares may be sold to any other person as determined by the member, who initiated the offer.

Prohibition on acceptance of deposits from public70

Only specialized companies (i.e. Banking companies and such other company or class of companies or such deposits as the Commission may notify) are allowed to raise deposit from public. A company shall be punishable in the event it accepts or invites any deposit.

Alteration of Share Capital[71]

Condition of a special resolution to increase / consolidate / divide share has been made mandatory in the law.

Related party transactions

The expression —'related party' includes
i. A director or his relative: ii. A key managerial personnel or his relative; iii. A firm, in which a director, manager or his relative is a partner; iv. A private company in which a director or manager is a member or director; v. A public company in which a director or manager is a director or holds along with his relatives, any shares of its paid up share capital; (vi) Anybody corporate whose chief executive or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager; (vii) Any person on whose advice, directions or instructions a director or manager is accustomed to act: Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity; (viii) Any company which is— (a) A holding, subsidiary or an associated company of such company; or (b) A subsidiary of a holding company to which it is also a subsidiary; (xi) Such other person as may be specified. A company may enter into any contract or arrangement with a related party only in accordance with the policy approved by the board, subject to such conditions as may be specified, with respect to- (a) Sale, purchase or supply of any goods or materials; (b) Selling or otherwise disposing of, or buying, property of any kind; (c) Leasing of property of any kind; (d) Availing or rendering of any services; (e) Appointment of any agent for purchase or sale of goods, materials, services or property; and

[69] Section 76
[70] Section 84
[71] Section 85

(f) Such related party's appointment to any office or place of profit in the company, its subsidiary company or associated company:

Company accounts

Maintenance of Books of account

Every company is required to prepare and keep at its registered office books of account, relevant books and papers, financial statements for every financial year which give a true and fair value of the state of affairs of the company and that of its branch office.

Where a company has a branch office in or outside Pakistan, proper books of account relating to the transactions effected at the branch office are required to be kept at the office and proper summarized returns are required to be sent periodically by the branch office to the company at its registered office.

In the case of financial information, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by any director.

The responsibility of maintaining and producing books of accounts lies with every director, chief executive, chief financial officer of the company.

Inspection of books of accounts by Commission

The law allows any officer making the inspection of the books of accounts, to inter alia take possession of such documents and retain them for thirty days if there are reasonable grounds for believing that they are evidence of the commission of an offence.

Financial statements

The first financial statement must be laid at the AGM within 16 months (previously this was 18 months) from the date of incorporation of the company, thereafter, within 120 days following the close of financial year. This can be extended by 30 days, by the Commission for listed company and in any other case by the registrar. The condition for audit is not applicable to a private company having paid up capital not exceeding Rs. 1,000,000 (Except Public Interest company, subsidiary of a public company, holding company of a subsidiary company as provided in 1st amendment 2020).

For a listed company, the provision for sending the financial statements electronically and posting it on Company's website have been added. This rule is not applicable for to Single Member Company, however, audit of financial statements having paid up capital exceeding Rs. 1,000,000 is mandatory.

Dividend

A new provision has been added in law whereby companies are allowed to pay the dividends in kind. Any dividend may be paid by a company either in cash or in kind only out of its profits. The payment of dividend in kind shall only be in the shape of shares of listed company held by the distributing company. Directors are not allowed hold declared dividend.

Power of registrar

The Act empowers the registrar, inspector or investigation officer to obtain permission from Commission, without warrants, instead of Magistrate of Court, as Companies Ordinance 1984 directed, to freeze, seize or take possession of and retain any document, object, article, material, thing, account books, movable or immovable property or any account, property or thing, if he has reasons to believe that documents, books and papers or anything relating to any company or any chief executive or officer of such company or any associate of such person or is useful or relevant to any proceedings or investigation under this Act which is required or may be destroyed.

Amalgamation of wholly owned subsidiaries in holding company

The law allows amalgamation of wholly owned subsidiaries, directly or indirectly, into holding companies without the involvement of Commission to facilitate amalgamation, subject to the conditions that: a) the scheme of amalgamation is approved by the board of each amalgamating company; and b) each resolution provides that i. The shares of each transferor company, other than the transferee company, will be cancelled without payment or other consideration; and ii. The board is satisfied that the transferee company will be able to pay its debts as they fall due during the period of one year immediately after the date on which the amalgamation is to become effective and a declaration verified by an affidavit to the effect will be filed with the registrar; and iii. The person or persons named in the resolution will be the director or directors of the transferee company. Any contravention or default in complying with requirements of this rule is an offence liable to a penalty.

Winding up by court

In the circumstances in which a company may be wound up by court following additional provisions have been added.

if the company has made a default in filing with the registrar its financial statements or annual returns for immediately preceding two consecutive financial years; or if the company is carrying on business prohibited by any law for the time being in force in Pakistan; or restricted by any law, rules or regulations for the time being in force in Pakistan; or if the sole business of the company is the licensed activity and it ceases to operate consequent upon revocation of a license granted by the Commission or any other licensing authority; or if a listed company suspend its business for a whole yea

Court may ascertain wishes of creditors or contributories. In addition to this Court may ascertain wishes of creditors or contributories in all matters relating to the winding up of a company if it thinks fit for the purpose of ascertaining their wishes, order meetings of the creditors or contributories to be called, held and conducted in such manner as may be directed; and appoint a person to act as chairman of any such meeting and to submit a report in this regard. Further, weightage to wishes shall be based on the value of debt and voting power.

Appointment of official liquidator

The Commission shall maintain a panel for appointment of provisional manager and official liquidator of a company or a company to be wound up. Panel shall consist of chartered accountants, advocates, company secretaries, cost and management accountants, retired public servants having relevant experience and such other persons as specified by the Commission, having at least ten years' professional experience.

Removal of official liquidator

The Court may, on a reasonable cause being shown including but not limited to lack of independence or lack of impartiality, remove the provisional manager or the official liquidator, as the case may be, on any of the following grounds, namely: a) misconduct; b) fraud or misfeasance; c) professional incompetence or failure to exercise due care and diligence in performance of the powers and functions; d) inability to act as provisional manager or official liquidator, as the case may be; e) conflict of interest during the term of his appointment that will justify removal. Where the Court is of the opinion that any liquidator is responsible for causing any loss or damage to the company due to fraud or misfeasance or failure to exercise due care and diligence in the performance of his powers and functions, the Court may recover or cause to be recovered such loss or damage from the provisional manager or official liquidator.

Powers and duties of official liquidator
Following additional powers have been given to liquidator: to sell whole of the undertaking of the company as a going concern; to appoint an Advocate entitled to appear before the Court or such person as may be prescribed to assist him in the performance of his duties.

Conversion of a company of any class into a company of other class and related matters72

The process for change from public to private, private to single member company, unlimited to limited liability, limited by guarantee to limited by shares and vice versa, for each of the categories requires the Company to pass a special resolution and seek prior approval of the Commission.

[72] Section 46 to 50

Section 6:

Pakistan’s Corporate Tax Regulation

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Corporate Income Tax

Pakistan has the lowest corporate tax rate in the region, the corporate tax rate is 29% for the tax year 2020 and is imposed on the net taxable income of a company. Whereas, Small companies are taxed at 23% rate that gradually will reduce by 1% annually till tax year 2023.
The federal corporate tax rates applicable on taxable income for year 2021 are given in table below:

<table>
<tr><th>Company Type</th><th>Taxable Income</th><th>Tax Rate</th></tr>
<tr><td>Resident Company[73]</td><td>Worldwide income</td><td rowspan="2">29%</td></tr>
<tr><td>Non-Resident Company</td><td>Pakistani Income</td></tr>
<tr><td colspan="3">If the tax payable by a company is less than 1.5% of the turnover</td></tr>
<tr><td>Resident Company</td><td>Worldwide income (except builder or developer)</td><td rowspan="2">The tax liability in that case will be higher of alternative corporate tax, 17% of accounting income, or the total of corporate tax (including tax on net taxable income, minimum tax and final taxes</td></tr>
<tr><td>Non-Resident Company</td><td>Pakistani Income (except builder or developer)</td></tr>
<tr><td colspan="3">Tax rate related with type of Company</td></tr>
<tr><td colspan="2">Banking company</td><td>35%</td></tr>
<tr><td colspan="2">Public company other than banking company</td><td>29%</td></tr>
<tr><td colspan="2">Any other company</td><td>29%</td></tr>
<tr><td colspan="2">Small company</td><td>23%</td></tr>
</table>

Figure 7: Corporate tax structure in Pakistan

[73] A company is termed as resident if it is incorporated under the laws of Pakistan or if its management and controls are situated wholly in Pakistan. In this context, branches of foreign companies are considered non- residents.

Capital Gain Tax

Capital gain derived from the sale of immovable property are taxed under the normal tax regime at rates that depends on the amount of gains, and to the extent of a prescribed percentage of the gains that is computed based on the length of time the property was held.
The gain on open plot with holding period of one year is fully taxable. If the holding period is between one to ten years 75% of the gain is taxable while after ten years, there is no tax on capital gain.
The capital gain tax rates for sale of immovable property are:

Amount of gains	Rate of capital gain tax applicable
PKR 5 Million	5%
PKR 5 Million up to PKR 10 million	10%
PKR 10 Million up to PKR 15 million	15%
Exceeding PKR 15 Million	20%

Table 10: Rate applicable for Capital gain

Withholding Tax

Withholding is an act of deduction or collection of tax at source. In Pakistan, withholding provisions relate to salary, imports, exports, commission and brokerage, dividend, contracts, profit on debt, utilities, vehicles tax, stock exchange-related provisions and non-residents, etc., with varying rates.

Table 11: Withholding Tax rates for resident and non-resident companies

Type of Payment	Residents	Non-Residents
Dividends	7.5% or 25%	15%
Interests	10%, 15%	10%
Royalties	15%	15%
Fees for technical services	3%, 8%	15%

Withholding tax paid in relation to exports

Taxable Transaction	Tax rate	Who will deduct/ collect/ agent	From Whom
Export of goods	1% of gross value	Every Authorized dealer in Foreign Exchange	Exporter
Realization of proceeds on account of commission to non-export indenting agent or buying houses	5% of gross value	Every Authorized dealer in Foreign Exchange	Non export indenting agent or buying houses
On realization of proceeds on account of sale of goods to an exporter under inland bac to back LC or any other arrangement may be prescribed by FBR	1%	Every banking company	Exporter
Exports of goods located in Export Processing Zone (BPZ)	1% of gross value	BPZ authority	Industrial undertaking located in Export Processing Zone
Payments to Indirect Exporters as defined in DTRE (Duty and tax remission for exporters) rules, 2001	1% of gross value	Direct Exporters/ Export house registered under DTRE	Indirect Exporters
Payment to indirect exporters as defined in DTRE (Duty and Tax remission for exporters) rules, 2001	1% of gross value	Direct Exporters/ export house registered under DTRE	Indirect Exporters
Clearance of goods exported	1% of gross value	Collector of custom	Exporter of goods

Table 12: WHT in relation to exports[74]

[74] https://download1.fbr.gov.pk/Docs/2020728147649624WHTRateCard-Amended.pdf

Pakistan's Trade and Investment Facilitation Missions in the World

Trade Missions Abroad

Country	Officer	Contact numbers		Address and Email	
Afghanistan / Kabul	Dr. Muhammad Yousaf Khan / Minister (Trade & Investment)	Off:	(0093-20)2202793, 2202773, *Ext:* (0093-20)2202745-6		Embassy of Pakistan, Commercial Section, Karte Parwan, Kabul.
		Fax:	(0093-20)2202871	Email:	mti.kabul@commerce.gov.pk, commwing@pakembassykabul.com
		Cell:	(0093)783482624		
		Res:	(0093)786492221	URL:	www.pakembassykabul.com
Afghanistan / Kandahar	Mr. Asif Khan / Trade & Investment Counsellor	Off:			Consulate General of Pakistan, Commercial Section, Noroz Shah Burj, Ansari Mena, Kandahar.
		Fax:	(0093-81)820066	Email:	tic.kandahar@commerce.gov.pk, asifkhan94@gmail.com
		Cell:	(0093)787176277		
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			Res:	(001-713)8427134	**URL:**	www.pakistanconsulatehouston.org
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Important Links

1. Board of Investment https://invest.gov.pk/home

2. Federal Board of Revenue https://www.fbr.gov.pk/

3. Ministry of Commerce http://www.commerce.gov.pk/

4. Ministry of Finance http://www.finance.gov.pk/

5. Pakistan Official Visa Portal https://visa.nadra.gov.pk/

6. State bank of Pakistan https://www.sbp.org.pk/

7. Securities and Exchange Commission of Pakistan

   https://eservices.secp.gov.pk/eServices/

8. Trade Development Authority of Pakistan https://tdap.gov.pk/

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