

Improving the Investment Climate in the Punjab

Private sector investment is a key determinant of inclusive growth resulting in broad based productive employment and opportunities across the province. This increased opportunity increase income across the province resulting in better access to social services. Thus, the current government, whose development strategy lies on the platform of private sector development will move aggressive reforms to improve the business and investment climate in the province.

Current Situation

Firms in the Punjab are hampered by several constraining factors affecting the business and the investment climate in the province. The key areas include:

Business Licensing & Registrations Procedures

Several steps are required to register a company in Punjab. Even though most government departments have automated systems, they fail to share data with each other, resulting in duplication of effort by businesses. Companies also have to register with numerous government departments for tax purposes. Sales tax registration with the Federal Board of Revenue (FBR) is particularly complicated, and new firms seldom have the required information to get timely registrations. Other clearances and permits such as those from the Town Municipal Authority and Lahore Development Authority (for buildings), the Intellectual Property Organisation and the Environment Protection Agency are problematic.

Tax policies and administration

All aspects of the tax system, including policy, administration and institutional capacity, constrain businesses. Policy is unclear, complex and disconnected from wider policy objectives. Tax administration is seen as hostile and always engage with an attitude that private sector is involved in fraudulent activities. Since, establishment of PRA, businesses also face a duplication of taxes.

Access to finance

SMEs struggle to access finance at affordable interest rates, typically paying KIBOR + 3 – 6%, whereas larger firms can secure rates of KIBOR + 1 – 1.25%. The State

bank Schemes and those of the provincial government historically have not been able to build adequate development finance for the SMEs. Most of the small firms suffer due to lack of collateral to secure loans.

Labour laws and administration

The Labour Department has a mandate to protect workers and avoid exploitation – this at the moment is done at the cost of retarding economic growth or employment creation. The Labour Department enforces its mandate with reference to outdated laws, such as requirements to repaint factory walls every six months and to have metal bathroom fittings. These laws are often ambiguously worded, which make them ripe for extracting unofficial payments. Enforcement is generally seen as ineffective, with firms making informal payments to avoid inspections.

Overall quality of regulatory governance

The overall effectiveness of governance affects all aspects of doing business. Firms often deal with junior officers from a multitude of government departments, with large amounts of discretion. Businesses reported particular difficulties with respect to No Objection Certificates from the Environmental Protection Department (resulting in informal payments); Structure Safety Certificates (with high fees paid to architects from certificates issued without visiting the site); and Dengue inspections (with informal payments made to avoid arrests after dubious findings of larvae).

Land titles, registration and administration

The land registration and titling process is still problematic, this results in long disputes and refusal of banks to accept land as collateral for loans.

Access to Commercial Courts and Alternative Dispute Resolution Mechanisms (ADRM)

No system of dispute resolution and contract enforcement exists resulting in businesses showing reluctance to grow and invest. The firms complain about high rates of default against credit sales, especially, now that the law enabling non-baleable FIR against cheque default has been compromised.

Public-private dialogue processes

Businesses generally report a lack of formal, systematic dialogue processes during policy formulation. Although business member organisations are often invited to discussion forums, these were generally seen as ineffective. The SME sector also complain the most access is provided to bigger businesses.

Access to market information

Most firms do not consider the government as a reliable source for market information. The Trade Development Authority of Pakistan (TDAP) provides support to business to attend exhibitions and trade shows in existing export markets, although businesses are usually already aware of these. Other entities, such as the Small and Medium Enterprise Development Authority (SMEDA) and Punjab Small Industries Corporation (PSIC) have become redundant. Business associations are seen as bureaucratic and subject to capture by larger members.

Access to Skills

Businesses complain that TVET sector is producing irrelevant and non-employable skills for the industrial sector. A key reason for this is a mis-match between supply and demand. A quick analysis of the current TVET output in the Punjab shows that most of the output comprises trades such as electricians, mechanics, plumbers, welders, mason etc.; all trades that are relevant for self-employment and not for industry employment. All key export sectors in the Punjab complain about deficiency of relevant skills provision.

Key Initiatives to Improve Investment and Business Climate

Planning & Development Department, Government of Punjab, in collaboration with the implementing agencies is leading the implementation of Ease of Doing business Reform agenda. The following major achievements were made during last year in the aforementioned indicators pertaining to Punjab:

Starting a Business:

The following interventions are under process:

- Development and operationalization of Punjab business registration portal which reduces time and cost as the need to visit multiple offices has been eliminated.
- Online registration of companies through Punjab Business Registration Portal.
- Integration of Punjab Business Registration portal with Industries, Commerce & Investment Department, Labour & Human Resource Department, Punjab Employees Social Security Institution (PESSI), National Database & Registration Authority (NADRA) and Securities & Exchange Commission of Pakistan.
- Partnerships and Shops & Establishment can be registered through this portal; initial registration with PESSI can also be done through this portal.
- A helpline has been established to facilitate queries regarding business registration: 042-111-425-725.
- Firms registered since the Punjab Business Registration Portal's soft launch on 10.05.2017 till 27.08.18; Industries: 4,672; Labor: 1,686; PESSI: 1,525

Dealing with Construction Permits:

- In order to obtain a building permit for a commercial warehouse, the number of days has been reduced from 60 to 20 days.
- The No Objection Certificate (NOC) requirement from Environmental Protection Agency (EPA) has been waived off which has eliminated 105 days to obtain building permit for a commercial warehouse.
- In addition, building permits for a commercial warehouse can now be obtained from Town Hall, Lahore.
- Furthermore, the building by-laws have also been standardized between Lahore Development Authority (LDA) and Metropolitan Corporation Lahore (MCL) moving towards One City, One System.

- Moreover, LDA has automated the issuance of construction permits by including electronic submission of applications.
- Lastly, Traffic Engineering and Planning Agency (TEPA) and Water and Sanitation Agency (WASA) counters have been established at LDA.

Registering Property

- Punjab Land Records Authority (PLRA) has automated the procedures for property registration thereby reducing the number of procedures from 7 to 4 and reducing time from 56 days to 18 days.
- A significant achievement has been eliminating the need to advertise transfer of property, this was possible due to land plots records being digitalised.
- In addition, for the ease of general public, standardized specimen of sale deed has been introduced and placed at a dedicated website established for Registration of Deeds: <http://rodportal.punjab-zameen.gov.pk/>.
- Moreover, a third party based complaint management system has been established at: 042-111-22-22-77. In the last three months, the number of complaints received are 48, of which 46 complaints have been successfully resolved.

Enforcing Contracts:

- A case management system has been introduced at Lahore High Court (LHC) and Lahore District Court (LDC); whereby, judges and lawyers can generate a hearing schedule for all cases on their docket, track status of a case, generate cause lists and access judgments approved for reporting.
- Lahore High Court has also developed a mobile application for lawyers to access case details using their registered mobile number or CNIC.
- Three (3) mediation centers have been established for out of court settlement. These mediation centers deal with the following types of cases: Criminal, civil, family, guardian, rent, appeals, WAPDA, SNGPL, PTCL WASA etc and others.
- References received since 01.06.2017 are 733, and reference successfully mediated till 06.07.2018 are 408 Nos.
- An Alternative Dispute Resolution (ADR) centre is under construction at Lahore High Court.

Getting Electricity:

The number of days to obtain wiring inspections have been reduced from 14 to 3 days.

Steps taken to improve compliance with GSP+ Labor Conventions

In 2014, Pakistan was granted the GSP Plus status thus requiring enforcement and reporting of 27 International Conventions including 8 International Labour Organization (ILO) Core Conventions. Government of the Punjab adapted various labour laws that were framed with the primary focus to ensure rights of the workers in the industrial and commercial establishments. As a continuous effort to improve the labour working conditions, during the last few years efforts have been made to make the provincial labour laws in consonant with the international conventions. A Legal Gap Analysis has been conducted for The Factories Act, 1934, The Shops and Establishments Ordinance, 1969, The Payment of Wages Act, 1936, etc. All the labour rules and three laws have been updated and fully drafted, remaining laws will be updated soon.

Steps towards the improvement of investment promotion

Punjab Board of Investment and Trade (PBIT) has developed an Investor relation management database consisting of nearly 300 active investor leads with growing information on contact details, project details, project status, anticipated development impact, and other vital information. Moreover, the Investment Promotion Strategy has been developed and approved for implementation.

Steps towards developing and implementing Punjab Spatial Strategy to prioritize and coordinate public investments

Draft Punjab Spatial Strategy (PSS) has been prepared to provide a long term comprehensive development road map for the province of Punjab. The work focuses on; structural transformation, linking growth nodes and corridors which will capitalize on trans-regional economic activities, increasing farm incomes, increasing competition in the industrial sector through agglomeration and clustering and lastly increasing employment in all sectors of development. PSS identifies cities with the highest growth potential and constraints standing in the way of their potential, after which they are prioritized and investments are coordinated around them.

Industrial Policy/ Industrial Estate Policy Framework:

The Industries Commerce & Investment department has developed in the last two months a comprehensive industrial policy to support industrialization in the province. The policy also included the labour deletion policy that will insure employment of local labour in all foreign investments. The government is now developing the industrial estate development policy to ensure that Punjab's industrial estate are fully occupied and operation.

Restructuring of PSIC:

PSIC was established by the Government of the Punjab to support the small industrial sector in the province. With the passage of time, PSIC did not evolve to upgrade its functions in order to match the changing industrial and business dynamics. In this regard, the government is looking for an effective structure that will have the capacity to allow PSIC to use resources efficiently, and implement strategic priorities of the Government of the Punjab.

Cluster Development Initiatives (CDI):

Government is working with UNIDO for a Cluster Development Initiative (CDI), focusing on Auto Parts, Readymade Garments, Surgical and Leather Footwear.

Three projects have been launched to improve the competitiveness of Punjab sectors;

- Establishment of Design Studio (Ready Made Garments)
- Operationalization of Auto Parts Support Center of PSIC (Auto Parts)
- Footwear Design Institute