

Land Lease Policy (Draft)

Punjab Industrial Estate Development and Management Company



Submitted to:

Chief Internal Auditor

Punjab Industrial Estate Development and Management Company
Government of the Punjab

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Contents

.....	1
Acronyms	3
Overview of Pakistan Economy:.....	4
Fiscal Year 2016-2017 Performance:	4
Investment and Savings 2016-2017:.....	5
China-Pakistan Economic Corridor-Benefits:.....	5
Land Lease Purpose:.....	6
Quaid-Azam Appara Park:.....	7
Vehari Industrial Estate:.....	7
Rahim Yar Khan Industrial Estate	7
Bhalwal Industrial Estate:	8
Bahawalpur Industrial Estate:.....	8
Chunian Industrial Estate	8
Developed Industrial Land Lease Policy.....	9
Scope	9
Lease Term	9
Lease Payments.....	9
Security Deposit.....	9
Operation and Maintenance	9
Other Terms & Conditions for Developed Land	10
Undeveloped Land Lease Policy	11
Scope	11
Tenure of Lease.....	11
Payment of Lease	11
Security Deposit.....	12
Operation and Maintenance	12
Terms & Conditions for Developed Land.....	12
Legal Act Covers for Bankability:	13
Transfer of Property Act 1882:.....	13
Land Acquisition Act 1894:.....	13

Acronyms

GoPb	Government of Punjab
PIEDMC	Punjab Industrial Estate Development and Management Company
FIEDMC	Faisalabad Industrial Estate Development and Management Company
SEZ	Social Economic Zone
O&M	Operation and Maintenance
MSCI	Morgan Stanley Consumer Index--
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
US	United States
UAE	United Arab Emirates
FY	Fiscal Year

Overview of Pakistan Economy:

Pakistan has important strategic endowments and development potential. The country is located at the crossroads of South Asia, Central Asia, China and the Middle East and is thus at the fulcrum of a regional market with a vast population, large and diverse resources, and untapped potential for trade. The increasing proportion of Pakistan's working-age population provides the country with a potential demographic dividend but also with the critical challenge to provide adequate services and increase employment.

Pakistan's economy continues to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71 percent in FY 2016 which is the highest in eight years. GDP posted a reasonable growth over last year despite a major setback in agriculture growth because of massive decline in cotton production. Now Government is seriously concerned to provide incentives to underperforming sectors like textile etc. to encourage investor to bring investment in these areas. However, the loss to some extent is compensated by remarkable growth in industrial and services sector as both these sectors crossed their targets growth, while other key macroeconomic indicators like inflation, fiscal and current account balance recorded improvement.

The stable PKR parity also helped in keeping the CPI inflation under control, and in lowering inflation expectations in the country. The average CPI inflation fell from 8.62 percent in FY 2014 to 4.53 percent in FY 2015 and further declined to 2.79 percent during July-April FY 2016 compared to 4.81 percent of the corresponding period last year.

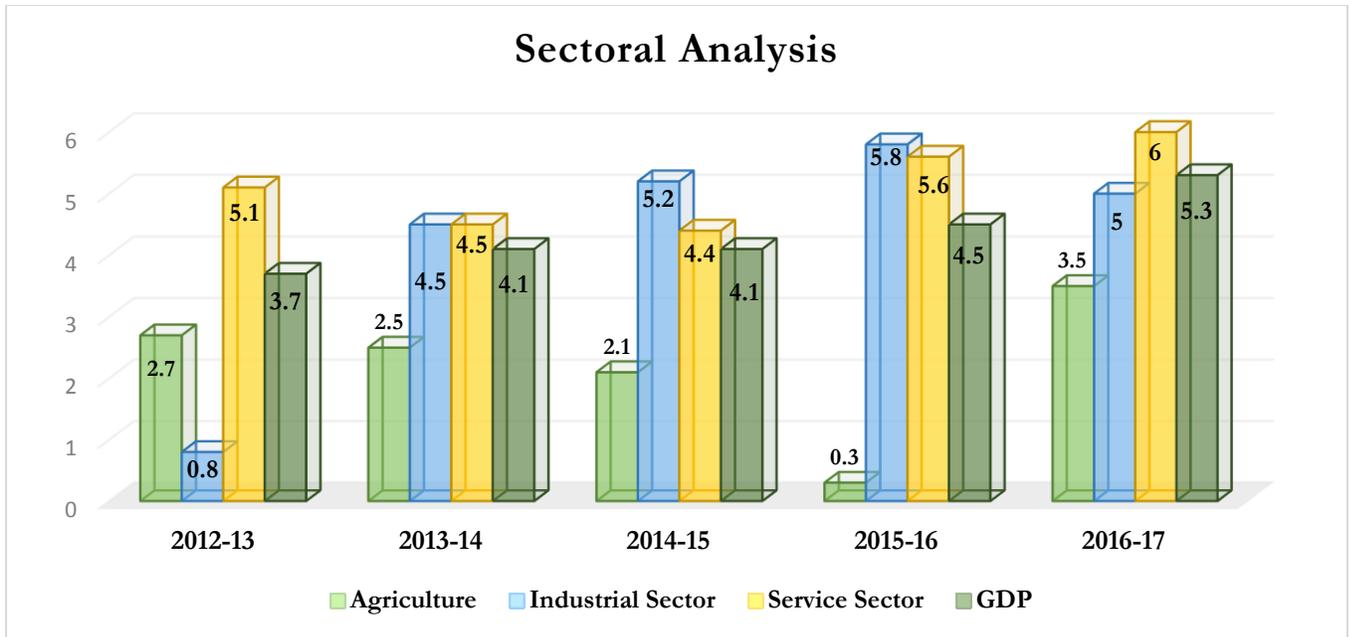
Fiscal Year 2016-2017 Performance:

The current situation is remarkable because recently Pakistan has been included in MSCI Index which was basically due to the continuation of the GDP growth in Pakistan during the fiscal year 2016-2017 5.3% growth in GDP was recorded while the inflation remains stood at 4.09% and the volume of Pakistan economy surpassed by \$300 billion.

The fiscal deficit of Pakistan has also registered a decrease. From last year when it was 4.6 percent, the fiscal deficit has been brought down to 4.2 percent. As can be seen, the fiscal deficit has been decreasing ever since 2012-2013 when it was at a staggering 8.2 percent.

The tremendous growth has been seen in the agriculture sector from 0.3% to 3.5% in 2016. The service sector here in Pakistan depicts a picture of growth increased from 5.70% to 5.98% this year and further growth potential has been seen in this sector.

The observed acceleration of economic growth was bolstered by growth-oriented policies and strategies during the last four years such as the National Power Policy, Kissan Package, Automotive Policy, Textile Policy, Strategic Trade Policy Framework (STPF) 2015-18, the Domestic Resource Mobilization Strategy, improvement in the Ease of Doing Business, and the National Financial Inclusion Strategy.



Pakistan economic sector mainly comprises of industrial, agricultural and service sector and is clearly seen from above stated data. Major contributors to this growth are sugar (29.33 percent), cement (7.19 percent), tractors (72.9 percent), trucks (39.31 percent) and buses (19.71 percent). High growth of sugar is based on production of 73.9 million tons of sugarcane as compared to 65.5 million tons last year, which represents an increase by 12.4 percent.

Investment and Savings 2016-2017:

Total investment has reached to the level of Rs. 5026 billion as compared to the Rs 4526 billion last year, showing growth of 11.05 percent in FY 2017. Investment to GDP ratio has reached 15.78 percent in FY 2017. Fixed investment has increased to Rs 4517 billion as compared to Rs. 4061 billion last year.

National savings were 13.1 percent of GDP in FY2017 against 14.3 percent last year. Domestic savings are recorded at 7.5 percent of GDP in outgoing fiscal year as compared to 8.2 percent of GDP last year.

Pakistan also registered a growth in FDI for this year. According to the Economic Survey of Pakistan, a 12.75% growth was registered in FDI as compared to last year. Currently, Pakistan’s FDI stands at Rs. 1.733 billion whereas last year it stood at \$1.537 billion.

Major FDI inflows during the period under review were from China (\$ 744.4 Million), Netherland (\$478.6 Million), France (\$171.0 Million), Turkey (\$137.7 Million), US (\$103.2 Million), U.A.E (\$ 48.4 Million), UK (\$47.6 Million), Italy (\$ 47.4 Million), Japan (\$ 42.1 Million) and Germany (\$ 40.5 Million).

China-Pakistan Economic Corridor-Benefits:

At its core, the CPEC is a large-scale initiative to build energy, highway, and port infrastructure to deepen economic connections between China and Pakistan. Following are the benefits of CPEC:

- The China Pakistan Economic Corridor (CPEC) is a 3,218-km set-up of roads, railways and dry ports from Gwadar Port to Kashgar and will enhance lives of about 3 billion people of this region. It will help China through Pakistan to do trade with the half of the world countries.

- Oil from the Middle East could be offloaded at Gwadar and transported to China through the corridor, cutting the current 12,000 km journey to 2,395 km. It will act as a bridge for the new Maritime Silk Route that envisages linking 3 billion people in Asia, Africa and Europe, part of a trans-Eurasian project.
- Fully operational, Gwadar will promote the economic development of Pakistan and become a gateway for Central Asian countries, including Afghanistan, Uzbekistan, linking Sri Lanka, Iran and Xinjiang to undertake marine transport.
- Tourism which currently makes up an insubstantial part of our earnings is believed to be elevated by opening of this economic corridor. The CPEC, some believe, will also boost tourism in the 73,000 square km region. The region is considered to be a mountaineer's paradise, since it is home to five of the 'eight-thousands' (peaks above 8,000 meters), as well as more than 50 mountains over 7,000 meters. It is also home to the world's second highest peak K2 and the Nanga Parbat.
- It will enhance opportunities for local and foreign investors in region like Iran and Gulf countries
- Pakistan can avail great opportunities from China in sectors of energy, technology and education sector. It will create more jobs and also it will provide joint research activities in various areas of life and technology
- It can benefit new emerging regional cooperation. Also, it will be time-saving, reduce cost and freight charges. It will facilitate trade and provide economic zone which will allow reaping of full benefits of development, economic and social uplift.
- Currently, goods shipped to Europe from central China travel a cumulative distance of 19,132 miles of which 16,507 is by sea, and 2,625 miles by land (distance from Shanghai port to central China). After completion of CPEC, the goods from Central Asia to Europe would have to travel a cumulative distance of 9,579 miles, of which 7,847 miles will be through sea, and 1,750 by land (distance from Karachi to central China). Besides this time required to transport would also reduce by 50 percent from 50 days to 25 days.
- The current freight charges of a 40 feet container Hamburg to Shanghai ranges from \$2,500-\$3,000. After CPEC becomes operational, the cost of 40 feet container would reduce to \$1,000. This means the saving would be of 50-65 percent in freight charges. The Chinese exporters would get their payments in half time.
- CPEC would also provide the shortest and most cost effective route for landlocked Afghanistan to China, India and Indian Ocean. The distance would be approximately 600 kilometres less as compared to the other nearest port of Chabahar
- CPEC would also help in making Afghanistan a transit route for energy rich Central Asia and energy starved South Asia.

Land Lease Purpose:

The purpose of the Land Lease Policy is to promote Industrialization in the Province of Punjab. The Government of Punjab will act as a Principle and will be facilitating Land Acquisition on behalf of the Industrialists or Industrial Estate Developers to facilitate them to setting up Industries in the Province and for that matter two models are being proposed under Lease arrangements:

1. Developed Land-Lease Model for Industrialists
2. Undeveloped Land-Lease model for Industrial Estate Developers to be subleased to Industrialists

At present the “Principle” the “Government of Punjab” have currently 10 Industrial Estates out of which Three (3) are under various stages of development and Three (3) Namely Chunian Industrial Estate, Quaid-e-Azam Apparel Park and Bahawalpur Industrial Estate are vacant with boundary wall in Chunian Industrial Estate and Quaid-e-Azam Apparel Park

Quaid-AzamApparal Park:

The Government of Punjab (GoP) has initiated a project of “Quaid-e-Azam Apparel Park (QAAP)“and industrial estate (PIEDMC) has been made responsible for its execution. The Apparel park is located on M-2, motorway near district Sheikhpura Near Qayampur Village, to expedite the textile, garment & apparel sector all over the Pakistan.

Apparel Park zone is primarily focused on development of organized or planned Garment sector and other general industries related to garment and textile, the establishment of this will bring prosperity to the entire region at local and national levels.

The Apparel Zone will be developed on minimum 1536 acres which can meet the requirements to provide maximum possible facilities including infrastructure, amenities, CETP and grid station etc. to the potential industrialists.

Focused Sectors:

Clothing and Apparel, Vertically Integrated units of Garment Manufacturing

Vendor Units:

Garment Vendor Industry includes Zips, Buttons, Labels, Packing, Chemicals, Embroidery, Commercial Washing, Dying and Printing

Vehari Industrial Estate:

PIEDMC is developing an industrial Estate in Vehari on 277 Acres to cater to local industry and generate employment for Vehari District. Plots starting from 0.5 Acres onwards are available for Sale to potential industrialists. Vehari Industrial Estate is most suitably located just 06 Km from main city (adda). Cheap skilled labor is also extensively available from Burewala and other adjoining areas. Dingi Airport is just 20 km away from Vehari Industrial Estate and Rail Head is just 10 minutes’ drive.

Focused Sector:

Textile Sector, Ginning, Food Processing, Handicraft, Shoe Industry, Artificial Industry, Argo Based Industry, Warehouses, Support Industry of Above Mentioned Units, Diary Industry

Rahim Yar Khan Industrial Estate

Rahimyar Khan Industrial Estate is an ongoing project of industrial estate (PIEDMC) aiming to bring the district of Rahimyar Khan into the main stream of economic growth. Rahimyar Khan Industrial Estate is ideally located on N-5, 15 KM from RYK City. Rahimyar Khan Industrial Estate has been developed over 450 Acre of land providing state of the art industrial infrastructure to industrialists from all over Pakistan.

District Rahimyar Khan is rich in wheat, cotton and sugarcane, mangoes, citrus, dates and has abundant livestock resources.

Focused Sector:

Textile Sector, Ginning, Food Processing, Handicraft, Food Processing, Argo Based Industry, Warehouses, Livestock, Meat Processing Unit, Dairy Industry

Bhalwal Industrial Estate:

Bhalwal Industrial Estate is located on a prime location just 15 km from M-2 Motorway between Salam & Bhera Interchange. Bhalwal Industrial Estate spans over 450 acres and is located in the best citrus producing area of the world in District Sargodha

District Sargodha is famous all over the world for its citrus producing ability. 52% of national production of oranges is from Sargodha District that has a high export value. Along with citrus, its produce are sugarcane, rice, wheat, potato and tomato.

Focused Sectors:

Food processing units including Juices, Jams Jellies and Snacks, Citrus Grading, Cold Storage, Paper and Paper Products, Chemical and Chemical Products, Poultry, Milk and Dairy.

Bahawalpur Industrial Estate:

Bahawalpur industrial estate is located near main N-5, just 16 Km away from the Bahawalpur City. This project was also developed under the monitoring of an “Agent” the “Industrial Estate” (PIEDMC) spanning over 500 acres of land. The development of this project was according to the needs and preferences of the local region/area.

The mission of this plan was to create the eradicate or reduce the unemployment because at present there is no such industrial estate exists that based on the international standards, further this land mark project will lift the overall industry of the region.

Focused Sectors:

Bahawalpur region is famous for the Sunflower, Cotton, Mustard seeds, Sugarcane and this industrial estate will be a good option for the textile industry including weaving, spinning, processing and printing. A strong potential in the wool processing and weaving unit has been observed in this area.

Chunian Industrial Estate

Chunian Industrial Estate (CIE) is one of the very promising and demanding upcoming projects of PIEDMC spanning over 300 Acres of Land Chunian at by-pass road in District Kasur. Chunian Industrial estate is ideally located on Chunian-Pattoki By-Pass Road, 3-Km from Chunian City and 76-Km from Lahore. Moreover, railway station is just 10 Km away from the industrial estate hence it is easily accessible.

Focused Sectors:

Argo Based Industry, Textile, Ginning, Spinning, Leather Products, Warehouse, Light Engineering, Food Processing Units, Dairy Industry.

Developed Industrial Land Lease Policy

Scope

Under this model, GoPb will lease the developed land through its Industrial Estate Development Companies, PIEDMC/ FIEDMC for establishment of an industrial estate¹. The industrial estate will have all the amenities that are required for state of the art industrial estates with SEZ status.

Lease Term

Developed land will be leased out to foreign or local investors without any discrimination for a period of 30 years with a renewal option at the end of the period.

Land User Agreement will be signed between the investors and PIEDMC/ FIEDMC. Under the Land User Agreement, the investors will be required to complete the construction of the facility and start commercial operations within a period of 24 months of signing the agreement. In case, investors will not be able to fulfill this obligation, Land User Agreement will be renegotiated between the two parties within a period of three months. If both parties will not be able to reach a conclusion in the regard, the Land User Agreement will be terminated.

Lease Payments

Lessee will be required to make the lease payments on a monthly basis and the payments charged from lessee will include the following components: sum of actual land and infrastructure development cost incurred by GoPb; subsidized borrowing cost.

All of the aforementioned cost components will be recovered from the investor over a period of thirty (30) years and these costs will not be subject to increase with inflation i.e. lease payment of investor will not be increased with the increase in land prices or inflation rate.

Security Deposit

Investors will be required to make a security deposit (a fixed percentage of total capital cost) at the time of the Land User Agreement. This deposit will be refunded after conclusion of land lease agreement after the lease term of 30 years, if the lease term is not subject to renewal.

Operation and Maintenance

PIEDMC/ FIEDMC will be responsible for the operations and maintenance of the industrial estate. The investors will also be required to pay per acre monthly operational and maintenance costs to PIEDMC/ FIEDMC to cover up the actual costs incurred by the industrial estate management companies for the maintenance of the industrial estate. O&M costs will be subject to increase annually with the actual annual inflation rates.

¹**State Owned Land with Rights of Use With PIEDMC/ FIEDMC** can be leased under **Transfer of Property Act 1882 Section 58(b)**, which states that the lessor may lease and lessee mortgage leased-hold property wherein all liabilities, taxes and fees etc. towards lessor will be paid by the lessee. The financial institution will step in the shoes of lessee of PIEDMC (Lessor) as lessee (Mortgagor) of PIEDMC (Lessor). The Bank will be required to verify from lessor regarding dues of the lessee as per lease agreement from the lessor. Non-clearance of the dues has Penal consequences and lease hold rights are cancelled, or

Land Owned by PIEDMC/ FIEDMC can be leased under the **Land Acquisition Act 1894 3(e)** after obtaining the prior approval of provincial Government i.e. GOPB and in accordance with its Memorandum and Articles of Association.

Other Terms & Conditions for Developed Land

1. No real estate speculator is allowed to take developed land on lease.
2. Valuation & Verification Criteria for PIEDMC/ FIEDMC and Financial Institutions will be followed.
3. EOBI registration for assurance of employment of local unskilled/skilled workers.
4. Complete information, bio data, FDI break up etc. of local, foreign investor(s) for the establishment of industrial unit in the industrial zones before processing its application.
5. Business Plan of Local, Foreign Investor(s).
6. Third party validation on investment brought in by investors.
7. Undertaking that Local, Foreign Investor has a clean bank record.
8. Undertaking that no money decree has ever been passed against the Local, Foreign Investor.
9. Undertaking to meet the financial liabilities.
10. Undertaking to abide by rules & regulations, building bye laws, procedure, policies etc. existing and any amended thereof.

Undeveloped Land Lease Policy

Scope

Under this model, GoPb will lease the undeveloped land through its Industrial Estate Development Companies, PIEDMC or FIEDMC under Build Operate and Transfer (BOT) mode for establishment of an industrial estate². The industrial estate will have all the amenities that are required for state of the art industrial estates with SEZ status.

Tenure of Lease

The Land Lease Agreement between the PIEDMC and the Industrial Estate Developer will be for thirty (30) year period (extendable based on negotiation with the PIEDMC) excluding the grace period of 36 months for the development of the land. The Industrial Estate Developer will sub-lease the developed land to investor(s) under a lease model.

Land will be leased out to Industrial Estate Developer for a period of 30 years with a renewal option at the end of the initial period. Land User Agreement will be signed between the Industrial Estate Developer and PIEDMC / FIEDMC. Under the Land User Agreement, the Industrial Estate Developer is required to complete the construction of the Industrial Estate within a period of 36 months. If the Industrial Estate Developer is not able to fulfill the obligation the Land User Agreement will be renegotiated between the two parties within a period of three months. If no Agreement is reached then Land User Agreement will be terminated.

The industrial estate developer will sub-lease out the developed land to Investors only and the investors(s) will not be allowed to further sub lease the developed land. Land user Agreement will be signed between the Industrial Estate Developer and the Investors(s). Under the Land Usage Agreement, the Investors is required to complete the construction of the facility and starts commercial operations within a period of twenty-four (24) months. The concession agreement will be for a period of thirty (30) years. Once the Land Lease Agreement between the PIEDMC and Industrial Estate Developer is over the Investors can negotiate a new Land Lease Agreement with PIEDMC as the BOT period with the Industrial Estate is for thirty (30) years.

Payment of Lease

Lessee will be required to make the lease payments on monthly basis and the payments charged from lessee will include the following components: sum of actual land cost incurred by GoPb; and subsidized borrowing cost.

All of the aforementioned cost components will be recovered from the investor over a period of thirty (30) years and these costs will not be subject to increase with the inflation i.e. lease payment of investor will not be increased with the increase in land prices or inflation rate.

²State Owned Land with Rights of Use With PIEDMC/ FIEDMC can be leased under **Transfer of Property Act 1882 Section 58(b)**, which states that the lessor may lease and lessee mortgage leased-hold property wherein all liabilities, taxes and fees etc. towards lessor will be paid by the lessee. The financial institution will step in the shoes of lessee of PIEDMC (Lessor) as lessee (Mortgagor) of PIEDMC (Lessor). The Bank will be required to verify from lessor regarding dues of the lessee as per lease agreement from the lessor. Non-clearance of the dues has Penal consequences and lease hold rights are cancelled, or

Land Owned by PIEDMC/ FIEDMC can be leased under the **Land Acquisition Act 1894 3(e)** after obtaining the prior approval of provincial Government i.e. GOPB and in accordance with its Memorandum and Articles of Association.

Security Deposit

Investors will be required to make a security deposit (a fixed percentage of total capital cost) at the time of the Land User Agreement. This deposit will be refunded after conclusion of land lease agreement after the lease term of 30 years, if the lease term is not subject to renewal.

Operation and Maintenance

PIEDMC/ FIEDMC will be responsible for the operations and maintenance of the industrial estate. The investors will be required to pay per acre monthly operational and maintenance costs to PIEDMC/ FIEDMC to cover up the actual costs incurred by the industrial estate management companies for the maintenance of the industrial estate. O&M costs will be subject to increase annually with the actual annual inflation rates.

Terms & Conditions for Developed Land

1. No real estate speculator is allowed to take developed land on lease.
1. Valuation & Verification Criteria for PIEDMC and Financial Institutions will be allowed.
2. EOBI registration for assurance of employment of local unskilled/skilled workers.
3. Social Security etc.
4. Complete information, bio data, FDI break up etc. of Local, Foreign Investor(s) for the establishment of Industrial Unit in the Industrial Zones before processing its application.
5. Business Plan of Local, Foreign Investor(s).
6. Third party validation on investment brought in by investors.
7. Undertaking that Local, Foreign Investor has a clean bank record.
8. Undertaking that no money decree has ever been passed against the Local, Foreign Investor.
9. Undertaking to meet the financial liabilities.
10. Undertaking to abide by rules & regulations, building bye laws, procedure, policies etc. existing and any amended thereof.

Legal Act Covers for Bankability:

Transfer of Property Act 1882:

The lessor may lease and lessee mortgage leased-hold property under section 58 sub section (b)¹ of transfer of property Act 1882 wherein all liabilities, taxes and fees etc towards lessor will be paid by the lessee.

The financial institution will step in the shoes of lessee of PIEDMC (Lessor) as lessee (Mortgagor) of PIEDMC (Lessor).

The Bank will be required to verify from lessor regarding dues of the lessee as per lease agreement from the lessor. Non clearance of the dues have Penal consequences and lease hold rights are cancelled.

Land Acquisition Act 1894:

PIEDMC may lease the acquired land under section 3 sub section (e)² after obtaining the prior approval of provincial Government i.e. GOPB and in accordance with its Memorandum and Articles of Association.

¹**Transfer of Property Act, 1882 Chapter IV:** Simple mortgage (b) Where, without delivering possession of the mortgaged property, the mortgagor binds himself personally to pay the mortgage-money, and agrees, expressly or impliedly, that, in the event of his failing to pay according to his contract, the mortgagee shall have a right to cause the mortgaged property to be sold and the proceeds of sale to be applied, so far as may be necessary, in payment of the mortgage-money, the transaction is called a simple mortgage and the mortgagee a simple mortgagee.

²**Land Acquisition Act, 1894:** the expression “Company” means a Company registered under the 7[7][Companies Ordinance, 1984], or under the (English) Companies Acts, 1862 to 1890, or incorporated by an Act of Parliament 8[8][of the United Kingdom] or 9[9][by a Pakistan law], or by Royal Charter or Letters

7[7]: Substituted for the words “Indian Companies Act, 1882” by the Land Acquisition (Punjab Amendment) Ordinance, 2001 (XXXIII of 2001), which will remain in force under the Provisional Constitution (Amendment) Order 1999 (9 of 1999), Article 4, notwithstanding the maximum limit of three months prescribed under Article 128 of the Constitution of the Islamic Republic of Pakistan.

8[8]: Inserted by the Central Laws (Adaptation) Order, 1961 (P.O. 1 of 1961), Article 2 and Schedule (w.e.f. 23rd March, 1956).

9[9]: The original words “of the G.G. in C”, were first substituted by the Government of India (Adaptation of Indian Laws) Order, 1937 as amended by the Government of India (Adaptation of Indian Laws) Supplementary Order, 1937 and then amended by the Adaptation of Central Acts and Ordinances Order, 1949 (G.G.O. 4 of 1949), Schedule, to read as above