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1 Preface

This study has been initiated on the request of Securities and Exchange Commission of Pakistan (SECP). The major objectives of this study are to analyze the key issues and challenges faced by corporate entities leading to corporate sickness, conduct root-cause analysis for business sickness, suggest measures to revive such entities, recommend legal and regulatory changes to facilitate revival or winding up.

We are thankful to SECP for showing confidence in ICMA Pakistan. Despite various limitations like availability of data of sick entities, difficulty in traceability of sick entities, reluctance of entities to provide data and availability of limited time to complete the study, every effort has been made to study and present the reliable and accurate information depicting real issues leading to failure of corporate entities. Unique challenges of some major sectors with recommendations are also included in this study.

Although, we understand that revival of sick entities is a challenging task, it the need of the hour. We appreciate the vision and keenness of the government towards the economic revival of corporate entities facing issues of survival. We hope that the focused measures envisioned will be helpful in achieving the objectives.

We are thankful to Mr. Zia ul Mustafa Awan, President ICMA Pakistan for delegating this study to TSPD Committee of ICMA Pakistan. We also recognize the efforts of Mr. Tariq Javed Kamboh, FCMA, Director Technical Support and Practice Development, ICMA Pakistan; and Mr. Faisal Riaz Bhatti, FCMA for their untiring efforts in completing this study. We are also grateful to Mr. Nazir Ahmad Shaheen, Executive Director, SECP for his valuable inputs, dedication and follow-up. Our felicitation are also due for Executive Director, Regional Directors and other officers and staff of ICMA Pakistan for helping in data collection and coordination. Finally, I am thankful to the management of corporate entities, Chambers and Trade Associations, who helped by completing the survey and provided useful information.

We wish a prosperous future of corporate sector of Pakistan.

Ghulam Mustafa Qazi, FCMA
Vice President, ICMA Pakistan
Chairman, Technical Support and Practice Development (TSPD) Committee, ICMA Pakistan
2 EXECUTIVE SUMMARY

Corporate sector is the most important pillar and a key driver of the development of the national economy. Despite significant contribution to the economy, this sector continues to face certain constraints. This study is aimed at increasing the efficiency of the corporate entities in Pakistan.

The report looks at the seven major areas with reference to the rehabilitation of the corporate entities. Firstly, it looks at the recent changes in the global economic environment and historical background of the efforts made so far, for the development of the corporate sector. Secondly, it describes the needs and challenges faced by the corporate entities. Thirdly, it summarizes an analysis of the root cause factors leading to the inefficiency and lack of governance in the corporate sector. Fourthly, it determines criteria for the revival of sick corporate entities. Fifthly, the report elaborates particular challenges faced by the small versus large corporate units in their revival efforts. Sixthly, the study makes an assessment of the capacity of judicial authorities for handling the cases for the revival of sick companies. Lastly, the report proposes changes in the legal framework to facilitate the revival of sick corporate entities and simplification of administrative and regulatory procedures to expedite the revival and winding up of companies.

This report also conducts an empirical analysis of the core reasons of the corporate sickness and the impact of industrialization on poverty. It has been observed that industrial development in Pakistan has been heavily dependent on government intervention and there was poor growth in this sector as compared to other Asian economies. Eventually, recommendations have been made to achieve higher growth in the corporate sector.

It is a massive challenge for the economic managers in Pakistan to achieve corporate and industrial growth in an environment of energy crisis, security concerns, rising public debts and external liabilities, widening fiscal deficits, soaring inflation, unemployment and sluggish economic growth. In order to achieve a sustainable economic growth the
government would have to address these challenges by devising a comprehensive economic revival plan. An effective implementation of such plan alongside aggressive pursuance of appropriate strategies for all the major sectors of the economy is critical to achieve rapid economic growth.

The major internal reasons identified for the sickness of corporate entities include lack of effective corporate planning, production issues, unavailability of raw materials, financial problems, lack of managerial capacity to effectively manage the operations, obsolete technology, inability to effectively market the products and services in the local markets, barriers of entry in the international markets due to the lack of quality standards and shortage of skilled human resource.

Challenges confronted by the various sectors of the economy due to external business environment include high production cost due to high input cost of raw materials and utilities, huge transportation cost, high incidence of taxes, monopolies and cartels, declining exports due to non-tariff barriers, devaluation of rupee, energy crisis, hike in the fuel prices poor law and order situation, high markup rates, rundown roads and transport network.

In order to overcome the above challenges and revive the corporate entities, a well thought plan is required to be implemented. The revival plan will cover financial support, loan rescheduling, tax rebates, corporate restructuring, public private partnerships, joint ventures and other allied services supervised by the Government.

Public Sector Enterprises are causing huge losses of Rs. 400 billion to national exchequer and draining the fiscal resources. This amounts to about 15% of government’s total annual revenues. The inefficiency of loss making public sector enterprises is contributing towards fiscal deficit and it is one of the major reasons for lack of funds for federal budget.
In order to formulate and implement a comprehensive plan for revival of sick corporate entities, it is imperative to conduct a nation-wide survey to compile an exhaustive list of all the sick industries and document their specific issues. The stakeholders should be encouraged to furnish information, which will provide basis for revival.
3 INTRODUCTION

Corporate sector is the backbone of the economy and a major driver of economic growth of any country especially a developing country like Pakistan. In the absence of a vibrant and dynamic corporate sector, it is an uphill task to achieve a fast track economic and Gross Domestic Product (GDP) growth in a country. Growth in the corporate sector not only increases the production of goods and services but also plays pivotal role to generate employment opportunities. It also helps to attract foreign investment, exports growth and a favorable balance of payments. With the increase in employment and availability of more goods and services, it has positive impact on the income, and as a result, helps control inflation and increase per capita income.

In the recent past, an increasing trend has been observed around the globe towards the failure of corporate entities generally in private sector and particularly in the public sector. The growing competition and the fast changing global economic environment have led to high incidence of corporate failures in developed market economies. The present credit crunch and financial crisis have further increased the severity of the problems faced by the corporate entities. Available data for many Organizations of Economic Cooperation and Development (OECD) countries indicates a sharp increase in bankruptcies and business failures in recent years. OECD has recognized this problem and developed a strategic response to the crisis focusing on the priority areas, such as finance, competition and governance, to restore long term growth. The impact of financial crisis on the economies of OECD countries is more severe since they have shifted to knowledge based service economies where investment in intangible assets is of equal importance as investment in machinery, equipment and buildings.

Global history of industrialization shows that economic crises are the times of industrial renewal and a beginning of new era of industrial growth. Less efficient firms fail, while more dynamic ones emerge and expand using innovative ideas, improved techniques and technologies. New business models and new technologies, particularly those allowing a reduction in cost, often arise in down
turns, as was the case with low-cost airlines which grew out of the recession of the early 1990s. As dominant players weaken, they open space for new entrants and innovators. However, economic downturns may have a detrimental effect on the creation of new and innovative businesses, when access to financing dries up. Economic growth suffers doubly in the long term since new innovative firms exert competitive pressure on established firms pushing them to innovate. Barriers to entry are higher during downturns due to higher risk of failure and fewer manufacturing firms enter during recessions, and such firms are more efficient than firms created during expansion phases.

Recently in Pakistan, the number of sick industrial entities has significantly increased for several reasons. A corporate unit is considered sick when its financial position is not satisfactory and it becomes worse year after year. It incurs continuous losses and its capital reserves may be stretched out with the passage of time. Since its current liabilities are more than current assets, the organization would not be in a position to meet its obligations. The increasing trend in industrial sickness touching all types of corporate entities including small, medium and large-scale industrial sectors is of considerable concern. The problem is assuming gigantic proportion and may have substantial impact and added consequences on the economy of a country like Pakistan, which cannot afford unemployment and loss of production.

Since there is no proper definition of sick company, keeping in view the work done by neighboring countries, we propose the following definition of sick company.

“A corporate entity, which:

i. is registered for not less than 4 years,

ii. has been incurring continuous losses for the last 4 years, and

iii. has at the end of any financial year accumulated losses equal to or exceeding its entire net worth”.

Pakistan is facing massive economic challenges. The industrial growth and economic prosperity is largely dependent on an enabling
environment reflecting political stability, corporate governance, investment conducive policies, improved global positioning and image, consistency in policies, transparency, tax reforms, and persuasion of rational macro-economic policies. It is a challenging task to achieve industrial growth in an environment of energy crisis, security concerns, rising public debts and external liabilities, widening fiscal deficits, soaring inflation, unemployment, inconsistent policies, restricted market access and sluggish economic growth.

In order to address these challenges, the government would have to formulate and implement an effective economic revival plan to make the economy move forward with appropriate strategies towards the path of rapid and sustained economic growth. In order to achieve sustainable economic growth and attract local and foreign investment, the major challenges of acute energy shortage and deteriorating law and order situation, confronted by the economy of Pakistan, need to be addressed immediately.
4 Historical Background

Corporate sector has always made important contribution towards the development and growth of economy of Pakistan. After independence, companies were formed both in public and private sectors, which proved to be vehicles for industrial and regional development, creation of basic infrastructure networks, and employment generation. Government of Pakistan owns and controls significant interests in key sectors with significant economic impact including infrastructure, manufacturing, oil and gas, banking and telecommunication sectors.

Over the span of decades, five different industrial policies or distinct approaches have left a lasting impact on the structure of industry in the country. In 1949, Pakistan was dependent on India for the supply of basic goods of consumption; a significant proportion of its imports came from India and a substantial proportion of its exports went to that country. The government of Pakistan made a series of short-term and long-term policies having lasting impact on the development of the country’s industrial base. The government encouraged private sector mainly in Karachi, the country’s capital at that time, in developing industrialization, provided incentives to private entrepreneurs to invest in the production of consumption goods, and gave the fledging private sector protection from external competition. This resulted in a rapid growth of the industrial sector and increase in industrial output.

Later on, the government of Pakistan continued this approach during the decade of 1960s with some modifications. Industrial licensing policy was used to bring about a wider dispersal of industrial ownership. Development finance companies such as the Pakistan Industrial and Commercial Investment Corporation (PICIC) and the Industrial Development Bank of Pakistan (IDBP) were used to promote industrialization. PICIC and IDBP received generous financial support from the World Bank. The policy encouraged the establishment of small units in other parts of the country as well as Karachi which by then had emerged as the industrial center of the country. Textile spinning and weaving sectors were most affected by this policy. Dozens of spinning mills were set up with the production
capacity of less than 12,500 spindles. This was significantly below the optimal scale even at that time. This approach resulted in the considerable inefficiency in the textile sector.

In 1970s, the third approach used by the government of Pakistan towards industrialization was to nationalize large number of industries. This approach suddenly increased the presence of the public sector in industry and finance. The decision to set up a number of public sector corporations to undertake new investments in the industrial sector and to provide financial support to them through a new development finance corporation further strengthened the role of the state in the industrial sector. The result was the introduction of several distortions into the management of the economy and widespread corruption.

During the decade of 1990s some initiatives were taken to bring back the private sector as the leader in economic development by privatizing some of the state’s economic assets, in particular large banks and large industries. However, privatization did not lead to a phenomenal industrial activity on the parts of the large owners of assets in the corporate sector. Overall industrial sector lacked product innovation, technological improvement, and market penetration. An important policy initiative of this period was the establishment of the Small and Medium Enterprise Development Authority (SMEDA). This was set up in October 1998, as a federal corporation with four regional offices, one in each province of the country. The corporation’s mandate was to facilitate the development of small and medium-sized enterprises to improve their line of products, encouraging the entrepreneurs to the use of new technologies, introducing them to new ways of doing business and management practices, preparing business plans and feasibilities, their capacity development, helping them to do cost benefit analysis of the investments, they were contemplating to make, and making them aware of the opportunities available in both internal and external markets.

During the first decade of the new millennium, private sector acquired a very prominent role. During this period, the pace of privatization quickened as did deregulation and the opening of the economy to the
outside world. Some significant adjustments were made in the tariff regime that provided incentives for the development of such large scale industries as automobiles, banking, telecom and consumer electronics. The government also gave considerable room to the financial sector to participate in the process of industrialization by making choices made on the basis of market considerations. This policy, however, could not develop enough confidence among the entrepreneurial class to stand on their own feet and deal with the changes occurring in the global economic system without government intervention.
5 Scope and Objectives

The main objectives of this study are:

(a) To undertake an analysis of the reasons leading to the financial losses of companies in different sectors of the economy.

(b) To make an assessment of the needs and challenges faced by sick companies in their revival efforts.

(c) To develop an objective criterion for deciding upon cases filed for revival of sick industrial units as to whether the case is to be considered for revival or for winding up the company owing to its bad financial condition.

(d) To work out the unique challenges faced by large vs. small companies in their efforts to revival of sick companies.

(e) To assess the capacity of judicial authorities as to their effectiveness in handling cases for revival of sick companies.

(f) To make an assessment of the changes required in the legal framework so as to facilitate revival of sick companies.

(g) To make recommendations for simplification of the administrative and regulatory procedures for expediting the revival of sick companies and for making winding up process fast, relatively unhindered and cost effective.

(h) To undertake a root-cause analysis of the factors leading to inefficiency and lack of governance responsible for insolvency of companies.
6 **Methodology**

This report is based on:

(a) A diagnostic review of the legal and regulatory framework under which the corporate entities operate.

(b) Discussions with the key stakeholders such as the ministries, government advisory bodies, companies, trade organizations, chambers of commerce and industry, Securities and Exchange Commission of Pakistan.

(c) Business climate survey through a questionnaire in all the major cities of Pakistan to assess the needs and challenges of the corporate sector in Pakistan.

(d) Literature review of the findings and recommendations of various research studies conducted for the revival of corporate sector in Pakistan and around the globe particularly South Asia Region.

In order to assess the business climate in Pakistan, figure out the main reasons of sickness of corporate entities, find out the needs and challenges of the corporate sector and recommend measures for corporate rehabilitation, a survey was conducted through separate questionnaires for the corporate entities, trade organizations and chambers of commerce and industries (Questionnaires attached as Appendix A – C).

The survey questionnaires were distributed amongst 172 trade organizations including 50 Chambers of Commerce and Industry (list attached as Appendix D). Further, about 1500 corporate entities were contacted out of list of dormant companies provided by Securities Exchange Commission of Pakistan (SECP). The following issues were observed:

(a) A very few number of Trade Organizations responded to the questionnaire despite repeated reminders and follow up.
(b) Most of the corporate entities in the list provided by the SECP were not traceable at the given addresses. Further, they were either non-compliant of statutory corporate returns or those in the process of winding up. Therefore, it cannot be established with certainty about how many of them were actually sick entities.

(c) Some entities refused to respond and some responded partially; especially they were unwilling to provide financial data.

(d) The State Bank of Pakistan responded that they do not maintain any list of sick corporate entities.

(e) Banks and Investment companies were also reluctant to share their data.

The report is based on the summary of information gathered from a sample corporate entities representing major sectors of the economy and covering the major cities of Pakistan. List of entities responded is attached as Appendix E.

We feel that a more representative sample was required in order to give more accurate assessment of the needs and challenges faced by the various sectors of the economy. The time available to complete this study was insufficient for large scale and comprehensive analysis.

Compilation of a comprehensive list of all sick companies was not possible due to the unavailability of requisite data with the regulators. However, in spite of these limitations, a significant effort was made to obtain the data about sick companies from all available sources, by deploying resources in the major cities including Karachi, Lahore, Islamabad, Multan, Faisalabad and Peshawar.

Due to the above mentioned limitations, it was hard to conduct a comprehensive empirical analysis covering all the issues faced by
different sectors of the economy and issues specific to small versus large entities.
7 REASONS FOR CORPORATE SICKNESS

The main reasons identified for the failure of corporate entities include the following:

7.1 LACK OF EFFECTIVE CORPORATE PLANNING

One of the prime reasons for the corporate failure is lack of planning before launching a project or entity. It was observed that majority of businesses contacted did not prepare a formal business plan, budgeting or feasibility study. A project that may, apparently present an attractive picture might have many hidden pitfalls. A project that has an inherent weakness is very unlikely to be a successful project. The existence of a few players in the chosen field, who are doing well, is not always a sound proof that the new project will also be a success. The existing players may have their own special advantages due to which they could have overcome the hurdles and pitfalls that are present in the project. A thorough analysis of the project during the identification and formulation stage is very important. The time and efforts spent at this stage on planning is worth its cost, as any hasty decision made at this stage will be very costly. External factors also play a major role in project success. The present stage and the future course of the external environmental factors require to be carefully studied for their influence on the project.

7.2 PRODUCTION ISSUES

In many cases it was noted that the entities that faced business issues lacked production planning. The following factors have great impact on success of any industry:

(a) Underutilized plants
(b) Over production
(c) Lack of product mix
(d) Defective production

(e) Unavailability of the raw materials and other consumables.

7.3 Financial Problems

One of the major underlying reasons of corporate failure is the lack of effective financial management. Corporate entities funding the organization with a higher debt component than the one safely manageable find it hard to manage the debt servicing and high interest charges. On the other hand some companies having insufficient financial resources are unable to achieve an optimum production volume in order to be competitive in the market. Being the lifeblood of business, finance links all areas of a business unit. Corporate entities funding acquisition of fixed assets through high cost short term borrowings, face liquidity problems and struggle to meet the short term obligations. It has been noted that companies with improper inventory management hold huge stock of finished products. Late realization of debts, lack of proper planning for payment to creditors has also lead the companies to financial crisis.

7.4 Managerial Inability

It surfaced during study that at times, corporate entities collapsed due to inefficient managements. In some entities, senior management does not make timely strategic level decisions and indulge in the tactical and operational decision making, leads to inefficiency. Unawareness of the corporate knowledge and ethics is also the major hurdle in smooth running of the affairs, ending up to the undesired disputes.

7.5 Obsolete Technology

Technological changes have also lead the corporate entities to sickness. Modern technologies are more automated, efficient and cost effective. However, these technologies are costly and require
technological skills and ongoing support. Therefore, usually the corporate entities are reluctant to shift their business processes to modern technologies due to huge investment and attitude of resistance towards change. Hence the corporate entity using old technologies cannot compete with those having modern and efficient systems in place. We noted that such entities need financial and technical assistance, in order to make them viable.

7.6 MARKETING AND ACCESS TO THE MARKET

Marketing covers all activities starting from conceiving the idea of a product or service to fulfill the needs of the customers, product development and satisfying consumer requirements. Any organization that does not give due importance to marketing is likely to face issues of low sales turnover. Corporate entities producing high quality products and services but unable to market them in the local and international market face severe profitability issues. Small and Medium Enterprise Development Authority (SMEDA) and Trade Development Authority of Pakistan (TDAP) can play effective role in providing guidance to business entities in developing and implementing marketing strategy and assist in finding access to the international markets.

7.7 HUMAN RESOURCE PROBLEMS

Human resource, now-a-days, has gained more importance globally in the corporate sector and is considered to be another form of business capital. In the course of study, it surfaced that unavailability of skilled labor, lack of appropriate skills amongst the technical staff; high employee turnover and other problems relevant to human resource management have also contributed towards failure and financial losses.
8 **NEEDS AND CHALLENGES FACED BY SICK ENTITIES**

Corporate Sector in Pakistan has been facing enormous challenges which have affected its performance adversely. Key challenges confronted by the major sectors of the economy are summarized below:

8.1 **TEXTILE INDUSTRY**

Pakistan is the 4th largest producer of cotton in the World and 8th largest exporter of textile products in Asia. Textile sector contributes 52% of total exports which is about 12.36 Billion US Dollars, 46% of total manufacturing, 40% of total labor force, 8.5% of total GDP (Gross Domestic Products) and 5% of the market capitalization. There are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products. Pakistan contributes 5% to global spinning capacity, with 3rd largest capacity in Asia after China and India. The geographical location of Pakistan is the favorite for the international trade, it shares northern border with China, eastern border with India, western border with Afghanistan and Iran and southwestern border to the Arabian Sea.

The major issues faced by the textile industry include the following:

(a) Shortage of electricity

(b) Inadequate supply of natural gas

(c) High input cost of raw materials and utilities

(d) Unavailability of yarn as it is mostly exported

(e) Low value addition

(f) High mark-up rates
8.2 Cement Industry

Pakistan is the 5th largest cement exporter country in the world. Cement industry is a capital intensive industry, employing around 3% of the total workforce. Cement industry is contributing taxes of about Rs. 30.00 billion to the national exchequer. Pakistan is amongst few countries in the region having surplus cement with lowest per capita cement consumption. During 2011-12, Pakistan had surplus capacity of 12.25 million tons. Cement exports constitute one third of overall cement production in the country. In 2011-12, Pakistan exported 8.57 million tons of cement to Afghanistan, India and other countries. The current installed cement production capacity of 24 units in Pakistan is 44.77 million tons, whereas the production capacity of clinker is 42.64 million tons. The existing capacity utilization of cement is 70% to 75%.

The major challenges faced by the cement industry include high production cost, huge transportation cost, high incidence of taxes, cartelization, declining exports to India due to non-tariff barriers.

8.3 Sugar Industry

Pakistan is the 5th and 8th largest country in the world by cane cultivation and sugar production. Sugar industry is the second agro-based industry of Pakistan, employing work force of 1.20 million. Sugar industry contributes around 22 billion to the government in shape of taxes. The annual sugar consumption of Pakistan is around 4.34 million tons i.e. 24 kg per capita. The current installed sugar crushing capacity of around 88 sugar factories in the country is 43.91 million tons. The average capacity utilization stands at 53.21 percent. During 2011-12, total sugarcane production stood at 58.00 million tons, whereas sugar production was around 4.71 million tons. Pakistan exported 109,000 tons of sugar by 30th September 2012, as reported by State Bank.
The major issues hindering growth of the sugar industry include delay in payment to growers by millers, liquidity problems faced by millers, low yield due to unscientific agricultural practices, low sugar recovery, late crushing by farmers, late transportation of sugarcane to mills, delay in fixation of support price, sugar hoarding.

8.4 AUTOMOBILE INDUSTRY

Auto Industry in Pakistan contributes around US$ 3.6 billion to the GDP and earns revenue of around US$ 0.82 billion for the country. Auto industry is saving around US$ 2.4 billion foreign exchange annually through localization. Auto Industry has total investment of US$ 1.09 billion and provides direct employment to around 1.4 million people. It is the second largest payer of indirect taxes after the petroleum sector. There are 3200 units of automobile industry in Pakistan which are producing 200,000 vehicles and 1.8 million motorcycles annually. Auto industry is making exports of Rs. 128 million annually with huge potential for further growth.

The major challenges confronted by the automobile industry include competition from used imported cars, rising interest rate, depreciating Pak rupee, high rate of duty and taxes, high input cost of raw materials i.e. iron and steel, lack of skilled manpower, lack of auto-financing.

8.5 LEATHER INDUSTRY

Pakistan ranks 15th in the world production of leather and the 5th largest exporter in the world with 3 percent share in global market of leather sector. Pakistan stands at 2nd position in terms of production of quality leather in the world after Italy. Leather industry is the 3rd largest export-oriented sector of Pakistan with annual exports of around US$ 1 billion. Leather industry is the 2nd largest foreign exchange earner with contribution of 4.42 percent. Leather industry
contributes around 5% to the GDP and provides employment to more than one million people in around 800 tanneries in the country.

The major issues faced by the leather industry are electricity and gas shortages, declining exports, lack of trained manpower, smuggling and unlawful export of live animals, export of wet blue leather under wrong declaration.

### 8.6 Pharmaceutical Industry

Pakistan has the 8th largest pharmaceutical manufacturing industry in the world with 40 biotechnology companies, involved in development and manufacturing of various drugs. Pharmaceutical industry contributes around US$ 1.6 billion towards GDP of Pakistan and provides employment to around 4 million people. Pakistan has about 400 pharmaceutical manufacturing units with about 70,000 registered drugs. The share market of local pharmaceutical industry is almost 70% while remaining are multinational companies. Pharmaceutical Industry meets around 90% of country’s demand of finished medicine. Locally manufactured medicines are up to international standards. Pakistan is exporting pharmaceutical products worth around US$ 200 million annually.

The pharmaceutical industry faces the challenges of unreasonable price control strategy by the drug regulatory authority, inflation, rupee devaluation against dollar, high cost of utilities, power shortages.

### 8.7 Fertilizer Industry

Fertilizer industry constitutes around 3.4% of manufacturing of Pakistan. Pakistan ranks 46th in the world in terms of fertilizer consumption. Fertilizer consumption in five major crops production (wheat, cotton, sugarcane, rice and maize) in Pakistan is about 87 percent. Fertilizer industry in Pakistan has overall production capacity of around 7.5 million tons annually. Pakistan is one of the leading exporters of urea which is trusted as high grade fertilizer.
Fertilizer sector in second largest consumer of gas after the power sector.

The major issues specific to the fertilizer industry include shortage and shutdown of gas supply, low production capacity, hike in the fuel prices, energy crisis.

8.8 **EDIBLE OIL INDUSTRY**

Pakistan is the 3rd largest importer of Palm Oil and other soft oils in the world. It imports around 2 million tons of palm oil and 1 million tons of oil seeds annually to cater to domestic demand. Edible oil is the second largest import of Pakistan after Petroleum products. Pakistan edible oil imports stood at US$ 2.43 billion out of total import value of US$ 4.49 billion during 2011-12. The annual increase in edible oil consumption in Pakistan is around 7.7 percent. Edible Oil industry in Pakistan constitute 10 refining units, 160 small and medium sized vegetable oil and ghee units with installed capacity of more than 2.7 million tons. Edible oil sector has about 64 solvent extraction units which are producing 0.63 million tons by using locally planted cotton seed, rape seed, mustard seed, canola and sun flower. Edible oil sector is contributing over Rs. 50 billion to government in shape of duties and taxes.

The critical challenges faced by the edible oil industry include dependency on imports, limited local production, rise in international prices of edible oil, dollar-rupee parity, high Import duty and taxes, wide gap between demand and production.

8.9 **OIL AND GAS INDUSTRY**

Oil and Gas are major components of Pakistan's energy mix, meeting over 77.4% of energy needs. Pakistan has estimated crude oil reserves of 303.63 million barrels while its current production is 65,531 barrels per day. Pakistan has estimated gas reserves of 28.32 Trillion Cubic Feet (TCF) while its current production is 4 billion
cubic feet per day. Over 700 wells have been drilled by local and foreign exploration and production companies with over 250 discoveries – Success ratio is one discovery per 3.22 wells drilled, one of the best in the world. US$ 810 million was spent in 2010 alone on drilling activities with 30 new wells drilled. Pakistan is endowed with vast sedimentary area of over 800,000 square kilometers of which over 70% is yet to be explored. Till 31st July 2012, 250 oil and gas fields (58 oil and 192 gas) have been discovered in various basins of Pakistan with a success rate of 1:3.22. Pakistan imported oil to the tune of US $15 billion, which constituted 36% of overall import bill of the country. Pakistan meets about 18% of its oil demand from local sources. Pakistan produced oil worth US$2.4 billion and gas worth US$4.3 billion. The number of CNG vehicles has reached two million, giving Pakistan the distinction of having the highest number of natural gas vehicles in the world. In 2011, total investment of US$ 833 million was made in the CNG sector in Pakistan.

The crucial challenges confronted by the oil and gas industry include heavy dependence on imported oil, decrease in oil and gas discovery volume, security concerns, circular debt issue in energy sector, negative reserve placement, lack of research and development expenditure in exploration activities, lack of skills and technology.

8.10 INFORMATION TECHNOLOGY SECTOR

Pakistan stands at No.2 position in global IT services. Pakistan is also included in the list of best IT countries, which points to the rapid growth made by this industry. Pakistan’s IT industry's global share is around US$2.8 billion, including global sales revenue of US$1.6 billion. The annual growth rate of IT Sector is 33% with 41% growth in employment of professionals. Pakistan’s IT industry consists of 110,000 skilled professionals, out of which 24,000 are engaged in exports. Seven multinational companies have 'Development Centers' in Pakistan. 110 ISO 9001, 23 CMMi and 11 ISO 27001 certified companies. Nine STPs are offering around 700,000 square feet of IT-enabled office space. Pakistan Software Export Board (PSEB) has more than 1500 IT companies, out of which two are listed on Karachi
Stock Exchange (KSE), 2 on National Association of Securities Dealers Automated Quotations (NASDAQ) and 1 on Dubai International Financial Exchange (DIFX). These companies possess expertise in custom software development, ERP, financial solutions, mobile content, document management, enterprise computing and business process outsourcing (BPO). Government incentives to foreign outsourcing community include 100% equity ownership, 100% repatriation of capital and dividends, and income tax exemption for IT companies till 2016.

The major issues faced by the information technology sector include lack of adequate trained manpower, inadequate telecommunication infrastructure, brain drain i.e. information technology professionals moving abroad from Pakistan, lack of special financing schemes for information technology businesses, lack of acceptability of information technology services in public sector organizations.

**8.11 Telecommunication Sector**

The telecom industry in Pakistan is growing fast, with total cellular subscription reaching the mark of 122 million subscribers. By March 2013, the total subscribers of all mobile companies in Pakistan stand at 122,127,717. According to Pakistan Telecommunication Authority (PTA), the telecom sector had remained one of the most potential sectors during the last six years and it contributed more than Rs 687 billion during this period, besides providing a large number of employment opportunities. In 2011-12, the telecom industry contributed Rs. 133.4 billion to the national exchequer. There are around 1,800 franchises of mobile phone operating companies working in the country. PTCL is dominant player in broadband market and its products viz. EVDO and DSL are the popular technologies for broadband users in Pakistan. EVDO attains 35% share in broadband market. The telecom industry attracted the highest 54% share out of total FDI made in Pakistan during the year 2005-06. However, since then FDI share in telecom is continuously falling i.e. 36% in 2007-07; 27% in 2007-08; 22% in 2008-09; 17% in 2009-10 and only 5% in 201-11.
The critical issues confronted by the telecom sector include lack of proper regulatory governance, delay in third generation mobile spectrum, cellular suspensions for security reasons, restriction on SIM issuance at retail outlets, saturating cellular market.

8.12 Housing and Construction Sector

The construction industry contributes 13.5% to the world GDP and employs around 7% of the total employed labor force in the world. Construction industry is the prime source of employment generation for Pakistan, offering job opportunities to millions of unskilled, semi-skilled and skilled workforce. The construction industry has provided growth to the supporting allied industries in Pakistan such as cement, iron, steel, marble, electrical works, sanitary works, horticulture and transport sector. The total share of construction in the GDP of Pakistan has declined from 4.2% to 2.4% during last two decades due mainly to exorbitant increase in prices of raw material, funds shortage for PSDP projects and scarcity of financing opportunities. The State Bank of Pakistan (SBP) estimates housing backlog of 8 million units with increase of 300,000 more units every year. According to an estimate, there is annual shortage of 0.45 million to 0.55 million housing units in Pakistan. The urban housing need in the country is estimated at over 3.1 million and this figure is increasing due to increasing trend of urbanization and legal and illegal immigration. The housing needs for Karachi Region, based on conservative estimates, are 126,000 housing units per annum.

The major challenges faced by the housing and construction sector include rising prices of building materials, accumulation of housing backlog, shortage of housing finance, increased cost of construction, unavailability of gas connection from SSGC for high rise buildings, cuts in public sector development program (PSDP) funds, absence of modern construction technologies.

8.13 Transport and Logistics Sector
Pakistan has gained worldwide recognition as a regional gateway to international trade markets. The country has been facilitating the transportation of all types of goods across its territory. Road transport is the backbone of Pakistan’s transport system. The 9,574 km long National Highway and Motorway network – which is 3.65% of total road network –, handles 80% of total traffic. Major transport in Pakistan is by land. The total length of the roadways is 258,340 km, out of which 167,146 km is paved roads (including 711 km of express ways) and 91,194 km is unpaved roads. Road transport services are largely in the hands of private sector, which handles about 95% freight traffic. There are over 350,000 heavy cargo trucks in goods transportation business in Pakistan. The trucking sector carries 96% of the total freight traffic. The trucking sector is characterized by the presence of a small fleet of owners who generally own less than five vehicles. The number of vehicles on Pakistani roads is estimated to be 4.2 million vehicles including 250,000 commercial vehicles. Pakistan railways provide an important mode of transportation for the people and freights. The total railroad length in Pakistan is 8,163 km (2006). Pakistan’s domestic airlines connect major cities in the country. There are 146 airports in Pakistan and 92 of them have paved runways while 54 have unpaved runways. Port traffic in Pakistan has been growing at 8% annually in recent years. Two seaports – Karachi and Bin Qasim – handle 95% of all international trade. According to World Bank, annual revenue generation from transport sector of Pakistan is estimated at USD 17 billion, contributing 10.5% to GDP. It provides over 6% of employment. According to Logistics Performance Index of World Bank, Pakistan’s performance on logistics indicators, including quality of trade and transport infrastructure, is worse than that of other Asian countries. Pakistan’s transport sector suffered massive damages in the recent floods with a World Bank and Asian Development Bank Saturday reporting a need for more than $2 billion for recovery.

The critical challenges faced by the transport and logistics sector include non-declaration of transport and logistics as an industry by the government, lack of proper investment in transport infrastructure by the government, no government licensing authority for freight cargo transporters, no official law enacted for transport sector in Pakistan, outdated legal framework for carriage of goods by roads, lack of rail services and logistics to transport containers from ports,
damage of roads and other infrastructure due to floods, rundown roads and transport network, restrictions on provision of bonded transport, high cost for less than container load, non-operation of Pakistan Railways on commercial basis, lack of road safety devices resulting in road accidents.

8.14 Banking Industry

The banking system of Pakistan is a two-tier system including the State Bank of Pakistan (SBP), commercial banks, specialized banks, DFIs, Microfinance banks and Islamic banks. The total number of scheduled banks operating in Pakistan was 44 as on June 2012. Total liabilities/ assets of all Scheduled Banks stood at Rs 12,931.8 billion at end June 2012. As on 30th June 2012, there were 17 banks involved in Islamic banking with a network of 874 branches in the country. There are 20 commercial banks which are listed on stock market. In 2012, these banks posted a combined profit-after-tax of Rs118 billion against Rs107 billion in 2011, showing 9% growth. The Big-6 banks (UBL, NBP, HBL, MCB, ABL and BAFL), with combined assets of Rs 500 billion, posted a net profit of Rs. 96 billion in 2012, up by a modest 9% year on year. There are about 20 million bank accounts in different banks operating in Pakistan. For a country with 180 million people, this figure is quite small. As per SBP data, total deposits with banks in January 2013 stood at Rs 6.61 trillion, of which around 38 per cent were in saving accounts. In Pakistan, 80% of aggregate revenue of banks is generated through Net Interest Income. Pakistani banks are enjoying the highest spreads in the Asian region (7% to 7.5%), as compared to 3.21 per cent in India, 3% in China, and just about 2.17 per cent in Thailand. SBP reduced the discount rate from 12.5% to 9.5% in 2012, creating opportunities for increased investments and lending in the economy. SBP increased the minimum profit rate on deposits to 6% from 5%. This allowed consumers higher returns on their savings.

The major challenges confronted by the banking sector include reliance on net interest income instead of fee-based transaction and other sources, uncontrolled government borrowing from banks, decline in discount rates, shrinking banking spread, acute liquidity crunch, high mark-up rate.
8.15 Insurance Industry

Life Insurance Industry is among fastest growing Industries in Pakistan. State Life Insurance Corporation (SLIC) dominates insurance market in Pakistan with 63% market share / life premiums. Pakistan’s current insurance penetration (measured as total premiums to GDP) stands at only 0.7% which is the third-lowest in Asia as against 4.1% of India. The insurance density in Pakistan is recorded at around US$ 6.13, which is one of the lowest in the world. Pakistan’s general insurance penetration level (0.3%) is lower than the regional average (1.6%). The total number of active non-life insurance companies in Pakistan is 40 whereas number of active insurance companies (life and non-life), including Pakistan Reinsurance Company, stands at 50. Pakistanis spend around Rs 48 billion on life insurance per annum which put per head contribution to Rs 266. Similarly, per capital expenditure on non-life insurance stands at Rs 327. The combined life and non-life insurance spending for each person stands at Rs 593. Almost 85% premium is written by private sector insurance companies. The customer base is predominantly corporates. In 2005, government issued "Takaful Rules". At present, the share of takaful companies in the insurance market in Pakistan stand at 2% as compared to 1% of takaful share in global insurance. Pakistan is the second country after Indonesia to officially allow takaful windows, which enable firms to offer sharia-compliant and conventional products side by side, provided client money is segregated. Takaful share of the total insurance market there is only 2 to 3 per cent.

The major challenges of insurance industry include dismal performance of non-Life Insurance sector, lack of insurance penetration in remote and rural areas, lack of general awareness about insurance/takaful, declining motor premiums, falling non-life insurance penetration and density.
9 **SURVEY FEEDBACK**

The responding entities to the survey provided their feedback to identify the issues faced by them, which contributed towards their corporate sickness. Following is the summary of the response received from such entities:

9.1 **IS CAPACITY OF JUDICIAL AUTHORITIES A REASON FOR SICKNESS OF YOUR ENTITY?**

![Pie chart showing the responses]

- Yes, 27.3%
- No, 68.2%
- No Answer, 4.5%

27% of the respondents observed that capacity of the judicial authorities was a relevant factor towards the corporate sickness; whereas 68% do not feel that this factor is contributing significantly towards their failure.
9.2 DO YOU THINK THAT DETERIORATED LAW AND ORDER SITUATION IS ONE OF THE REASONS FOR YOUR BUSINESS LOSSES?

34% of the respondents agree that poor law and order situation had played adverse role in their business problems. 64% feel that there is no impact of law and order situation in their business failure.
9.3 **Do you think that Government's policies are a reason for losses of your entity?**

Three fourth of the respondents have observed that Government Policies are a major reason for corporate losses.
9.4 **Was marketing or market access a major impediment in your business success?**

34% of the responding entities have indicated marketing and market access as one of the factors which hindered their business performance. 59% do not feel problems in their marketing strategies and access to market.
9.5 In your opinion, is energy crisis a significant factor towards your business failure?

66% of the entities have indicated energy crisis as one of the major factors contributing towards business catastrophe. About 32% deny the importance of this factor towards growth of their industry.
9.6 Do you have automated manufacturing/business processes?

About 39% of the responding entities were using automated manufacturing or business processes. About 52% have manual processes or systems.
23% of sick entities were not able to pay to their employees in time despite the fact that they were operating with a low human resource strength.
9.8 IS JUDICIAL SYSTEM A REASON FOR FINANCIAL LOSSES OF YOUR ENTITY?

32% of sick corporate entities feel that judicial system is one of the impediments for corporate viability of such entities. 66% of these organizations do not consider the relevance of judicial system for business failure.
9.9 Is taxes or duties structure a factor for your business failure?

About 59% of the respondents consider duty and taxation structure plays role in the business failure. About 39% do not agree that taxation has any significant role in corporate sickness. A vast majority believed that governance was a major impediment in corporate rehabilitation.
9.10 Do you feel that obsolescence of technology is a factor contributing to your entity’s sickness?

About 41% of the entities surveyed consider obsolete technology has contributed towards corporate sickness; whereas about 55% do not agree that there is any significant role of obsolescence towards corporate failure.
9.11 Do you think that management issues have contributed to your business failure?

68% of the respondents agreed that their business was suffered due to management issues. About 30% ignore the impact of management issues in their corporate sickness.
9.12 **Do you consider infrastructure problems a factor contributing to your failure?**

Infrastructure was not a major area of concern for 77% of sick entities surveyed. However, about 21% of respondents recognize the role of infrastructure as a contributing factor in corporate issues leading to business failure.
9.13 Do you feel that high interest rates also contributed to your entity’s sickness?

61% of the weak businesses term high interest rates on loans and other financial facilities as one of the factors for business sickness. 36% believed that interest was not a major issue for their corporate failure.
9.14 Is availability of raw material a significant factor for your corporate sickness?

Availability of raw material was not one of the core issues in the opinion of 75% of the responding entities. Another 21% consider it as an important factor responsible for their business success.
9.15 Is availability of labor a cause of your business losses?

According to 61% entities, availability of labor was not an important issue hindering organizational success. 34% consider it an important factor for business success.
9.16 **Do you think that implementation of WTO has an adverse effect on your business?**

There was an equally split opinion about whether or not implementation of WTO had an adverse impact on business sickness.
9.17 Did you ever make an effort to revive your business?

43% of the respondents mentioned that they ever put an effort for corporate revival. 33% never tried to rehabilitate their business.
9.18 Is there any litigation case pending against your business in any court regarding recovery proceedings?

59% of the corporate entities have pending litigation cases in a court of law for recovery proceedings. 36% of such entities did not have any cases against them.
9.19 Are you interested in revival of your entity?

34% entities were interested to revive their businesses, whereas 27% are not interested in making efforts to revive their business. 39% did not respond the question.
10 Root Cause Analysis of Sickness in Corporate Sector

10.1 Indicators of Sickness of Corporate Entities

Corporate sickness can be identified by the leading indicators of sickness, and if immediate remedial actions are not taken, the sickness can grow to the extent that the organization will find it hard to survive. Major indicators of corporate sickness are given below:

(a) Continuous reduction in turnover.
(b) Piling up of inventory.
(c) Continuous reduction of net profit to sales ratio.
(d) Short term borrowings at high interest rate.
(e) Continuous cash losses leading to erosion of tangible net worth.
(f) Default in payment of interest on borrowings and default in repayment of term loan installments.
(g) The debtors and creditors keep growing and reaching a disproportionately high level.
(h) Approaching the banker for temporary over draft at frequent intervals.
(i) High turnover of personnel, especially at senior levels.
(j) Change in accounting procedure with to view to window dressing.
(k) Delay in finalization of accounts.

10.2 Causes of Sickness

Prevention is better than cure; it is therefore worth it to know the likely causes of industrial sickness so that proper planning can be made to avoid such kind of inefficiency and financial losses. A corporate entity can either face problems at the very beginning during the implementation stage or develop sickness during its lifetime.
The causes of sickness are categorized into internal and external causes. Internal causes exist within the organization over which the management of the organization has control. Sickness due to internal causes can be avoided if the management is brilliant enough to identify the causes and eliminate them at their initial stage. External causes are due to external environmental factors over which the management of the organization has hardly any control. Political, legal, sociological and technological factors are some of the major categories of external environmental factors. Though sickness may be caused either by internal or external factors, sometimes, the management may be able to revamp its organization, plan suitable strategies and take on the external factors to reduce their impact.

The areas and stages in which these causes may exist include:

(a) Project formulation.
(b) Project implementation.
(c) Production.
(d) Marketing.
(e) Finance.
(f) General and personnel administration.

Key factors contributing towards the failure of corporate sector entities along with proposed short term and long term solutions are given below:

10.2.1 Severe Energy Crisis

Share of Electricity Generation Sources is 36% from Gas; 32% from Oil; 29% Hydel and 3% from Nuclear. Total generation of electricity from hydel source is 6481 MW which is only 29% of installed capacity. Share of Electricity Distributors – 51% by WAPDA, 9% each by KESC, HUBCO and other IPP’s; 8% by KAPCO; 5% by UCH; 4% by ROUSCH and 2% each by Liberty and Pakistan Atomic Energy Commission (PAEC).Share of Electricity Consumers: household, industry, services, transport, government. The largest consumer is industry, accounting for about 60% of total consumption. Pakistan’s per capita electricity consumption of 451kwh is almost one-sixth of world average of 2730kwh (world energy statistics 2011).
The economic impacts of energy crisis are summarized below:

(a) The persistent acute power shortages and load shedding in the country have led to massive closure of industries, layoffs and un-employment, poverty and public unrest.

(b) The negative impact of energy crisis on the national economy is evident in shape of low productivity, decline in GDP growth, rising inflation and flight of capital. Most of the textile units are now moving to Bangladesh.

(c) The problem of energy crisis is two-fold–i.e. demand explosion and supply shortage. There is lack of integrated and proactive planning for growth of energy generation.

(d) Demand for energy is rising with the growth in population and industry requirement. The demand is around 20,000 MW whereas electricity of only 11,500 MW is being generated in the country.

(e) The cost of electricity generation in very high due mainly to faulty fuel mix. This has led to massive load-shedding and power shortages throughout the country.

(f) Furnace oil is the main fuel to produce thermal energy. The government is responsible to provide furnace oil to power generating companies but it is unable to pay fuel cost to them. Resultantly, the generating units are either closed down or run on low capacity. Eventually, they are unable to pay to oil companies, leading to high circular debt of around Rs. 872 billion.

(g) Independent Power Producers (IPPs) have not been able to share its burden by meeting the energy shortfall but rather they have become an object of controversy.
We propose the following short and long term solutions to overcome the energy crisis in Pakistan:

(a) A Special Task Force may be formed to take immediate crack down on ‘energy thefts’ throughout the country to reduce losses in electricity transmission and distribution. Similarly, serious efforts should be made to recover and collect due from the government departments and private sector. Billions of Rupees can be saved by reducing lines losses with addition funding available to government after collection of dues.

(b) In those parts of country where national grid do not exist, business community may be allowed to set up their own power projects (solar, wind based) without the prior permission of NEPRA.

(c) A Committee may be formed immediately to finalize a national plan to generate electricity through use of waste materials of crops like sugarcane bagasse, cotton waste, rice husk and organic materials

(d) Instead of importing expensive oil and gas, we can move to import cheaper clean coal for use as fuel in power generation. The price of coal is stable in international market, which will help bring stability in electricity price.

(e) Reliance on Rental Power Projects should be curtailed to reduce prices. A sizeable portion of budget should be earmarked for hydel power generation projects.

(f) Special focus should be given on building large number of small dams on Public-Private Partnership (PPP) basis to generate hydel power and to boost agriculture productivity.
(g) Alternate energy resources should be an important part of the energy policy of the government (such as solar, wind, tidal, bio-mass, biodiesel and waste energy).

(h) Government may provide interest-free loans (to be paid in easy installments) to public in urban areas (initially in Karachi, Lahore and Islamabad) to install small solar panels in their homes to generate energy. For this purpose, funding can be obtained from international donor agencies.

(i) The energy pricing for the industrial units should be based on their efficiency and performance. An efficient unit may be given more electricity at cheaper rates. For this purpose the local chambers of commerce may be involved. This would encourage the industrial units to improve performance and cost efficiency.

(j) The Ministry of Petroleum and Ministry of Power should be merged to make it into an Integrated Energy Board. A long term plan for this purpose may be chalked out by the government.

(k) The government and public servants should lead by example in power conservation e.g. minimum use of air conditioners, curtailing fuel by avoiding irrelevant official transport, using energy save bulbs etc. This would motive the general public to follow the example.
10.2.2 Alarming Security Situation

The law and order situation has been alarming since long, marked by increased number of organized crimes, terrorist incidents, target killings, kidnapping for ransom, especially in Karachi – the financial hub. According to partial data compiled by the South Asia Terrorism Portal (SATP), Pakistan recorded a total of at least 6,211 terrorism-related fatalities, including 3,007 civilians, 2,472 militants and 732 Security Forces (SF) personnel in 2012 as against 6,303 fatalities, including 2,738 civilians, 2,800 militants and 765 SF personnel in 2011. The first 69 days of 2013, have already witnessed 1,537 fatalities. According to SATP, in 2012 there were 39 suicide attacks in Pakistan, resulting into 365 deaths, as against 41 such attacks in 2011, though fatalities were at a much higher 628. The number of explosions increased from 639 in 2011 to 652 in 2012. According to the South Asia Media Commission’s (SAMC) Media Monitor 2012 report, Pakistan remained the most dangerous country for journalists in South Asia. 25 journalists were killed in South Asia in line of duty in 2012, with Pakistan registering killing of 13 journalists, followed by India (5), Bangladesh (3) and Nepal and Afghanistan (two each). The government spends huge sum of money from national exchequer to improve the deterio rated law and order situation – even much more than that spent on health, education and infrastructure sectors. During 2011-12, an amount of Rs. 194.33 billion were spent on improving security situation, as compared to Rs. 139.47 billion on health and 113.33 billion on infrastructure sectors during the same period. According to the Ministry of Finance, Government of Pakistan, during 2010-11 the government spent Rs. 169.79 billion on security situation, which enhanced to Rs. 194.33 billion in 2011-2012, showing an increase of 15 percent in one year. The break-up of Rs 194.329 billion spent in 2011-12 reveals that the federal government spent Rs 63.089 billion; Punjab spent Rs 58.690 billion, Sindh Rs 38.836 billion, Khyber Pakhtunkhwa, Rs 21.819 billion and Baluchistan spent Rs 11.895 billion on law and order situation.

The economic impacts of deteriorated law and order situation are summarized below:
The current state of law and order is having a negative impact on the Pakistan economy and hampering inflow of Foreign Direct Investment (FDI). Foreign and local investors are shying from operating in Pakistan and a number of industrial units had already shifted their operation to other countries.

The unstable law and order situation has led to huge economic loss, which has affected the country’s stock market as well. In addition, all main resources of revenue in affected areas have been hurt, including agriculture, manufacturing and small scale industry, and tourism.

The terrorism threat has diverted resources of government to security spending, increased the cost of doing business and created instability about business prospects in the country. As a result, the businesses find it difficult to obtain bank loans and get into long-term contractual obligations.

We propose the following short and long term solutions to overcome the security issues in Pakistan:

The government should develop national consensus on measures to be taken to extricate the country from shackles of violence, crime, arms and various mafias. Political patronage of mafias should be dealt prudently.

Drastic action need to be taken across the board without consideration of political, ethnic or affiliation with any school of thought. A major de-weaponization campaign needs to be commenced on war-footing basis.

Sizeable funds must be allocated for improving law and order situation. The law enforcement machinery need to be completely revamped by inducting educated youth as city and province levels. They may be equipped with modern technology to deal effectively with the terrorist and criminal elements of the society.
(d) The Citizens-Police Liaison Committee (CPLC) may be allowed to play an active and effective role with additional powers to take actions against ‘money extortions’ from business areas, especially in Karachi, the trading and financial hub of the country.

(e) The country has to suffer business loss of billions of Rupees due to ‘strike calls’ given by political and religious parties. As such, new government may consider imposition of complete ban on such strike calls. A huge sum of penalty may be asked from those parties which violates this ban.

(f) An Independent Police Complaints Commission (IPCC) be established (as existing in UK as per Police Reform Act) to investigate serious complaints and allegations of misconduct against police, as well as to handle appeals from people not satisfied with the way police have dealt with their complaint. The proposed IPCC should be self-governing, making decisions entirely independently of police, government and complainants. It will provide a powerful legal regulatory framework making the police accountable for their actions.

10.2.3 Depleting Foreign Reserves

The forex reserves are depleting fast. The total liquid foreign exchange reserves of Pakistan has declined sharply from USD 18.24 billion in 2010-2011 to USD 15.29 billion in 2011-2012. Out of this amount, USD 10.81 billion are net reserves with State Bank and USD 4.48 billion are net reserves with the banks. By 11 October, 2013, the total liquid reserves of Pakistan stand at US$ 9.21 billion (see Table). The SBP’s foreign exchange reserves have been declining consistently from USD 14.78 billion in 2010-2011 to USD 10.80 billion in 2011-2012. The SBP forex reserves continued to decline in 2013 i.e. from USD 8.7 billion at end-January 2013 to US$6.7 billion as of 5th April 2013, mainly due to debt payments. The SBP reserves has fallen by US$4.163 billion in the nine and half months of the current...
fiscal year 2012-13, which is the fastest-ever decline in a decade. The current account deficit of nine months is over US$ 1 billion which is expected to further expand in next few months. The private banks have reserves of over US$ 5 billion by as per existing law; the State Bank has no right to utilize the deposited amount of reserves in the private accounts. Pakistan has recently paid four installments of over US$650 million to IMF as principal amount of Stand-By Arrangement (SBA) and Extended Credit Facility (SCF) which resulted in massive decline in forex reserves. On February 26, 2013 Pakistan paid US$391 million to the IMF on account of 10th SBA installment, while 11th and 12th SBA installments worth US$250 million was repaid on March 28, and April 1, this year respectively. The rupee fell to an all-time low level of Rs 100 against the dollar in the open market in February 2013 due to debt repayment to the IMF under SBA loan facility.

The economic impacts of depleting foreign reserves are summarized below:

(a) The country is in serious trouble to make repayments to IMF and meet the widening current account deficit. Experts say that mismanagement and lack of strategy have pushed the country closer to default.

(b) The country is presently in a vicious circular flow of borrowing and repaying foreign exchange to the IMF in order to stabilize the forex account. Though Pakistan had opted for IMF bailout program in 2008, it is being forced again to approach the IMF due to instability in foreign exchange account after repayment of loan.

(c) Pakistan has to pay US$4.8 billion to IMF under Stand-by Arrangement (SBA) loan facility till June 30, 2014. Similarly, by 2015, Pakistan has to pay 3.497 billion SDR (Special Drawing Rights) to IMF amounting to US$5.3 billion, which is likely to put more pressure forex reserves of the country and may lead to payment default.
(d) The declining trend in forex reserves is having a negative impact on local currency and encouraging rupee holders to buy dollars or gold to save their reserves from melting on a day-to-day basis. This situation is a threat to the economy and requires immediate remedy.

(e) The unstable foreign reserves will push the rupee further lower against the dollar, which will lead to an increase in the import bill as well as create more challenges on external and internal economic fronts.

We propose the following short and long term solutions to overcome the issue to depleting foreign reserves in Pakistan:

(a) The new government would have to take tougher steps and undertake deep structural reforms to put the economic conditions in shape, especially for building stable foreign exchange reserves of the country.

(b) The government needs to restrict borrowing from the State Bank of Pakistan to stabilize the forex reserves.

(c) The government should stop its policy of knocking at the door of IMF and other international donor agencies and instead seek help from its friendly countries, like China and Saudi Arabia, to obtain external funding.

(d) A comprehensive foreign exchange savings policy needs to be developed by engaging economic experts.

(e) A huge portion of foreign exchange is spent on importing oil. It is imperative that oil consumption in the country be controlled to reduce import bill. This could be done by importing clean coal, instead of furnace oil, for electric generation; use of railways for goods transportation; switching to cheaper modes of electricity production e.g.
hydro-electric, wind and solar power. These measures will ease pressure on reserves.

(f) Imports of luxury items should be restricted to stabilize the forex reserves. Moreover, lucrative incentives should be given to exporters to enhance exports which would bring foreign exchange to the country.

10.2.4 Declining Investments

(a) The Foreign Direct Investment (FDI) into Pakistan has been continuously falling since last five years, which is a matter of concern. The FDI inflow into Pakistan is less than 1% of total FDI made globally.

(b) The total FDI which stood at US$5.41 billion in 2007-08, declined to US$3.72 billion in 2008-09; US$2.15 billion in 2009-10; US$ 1.64 billion in 2010-11 and drastically falling to US$0.81 billion in 2011-12. In the first nine months (July-March) of 2012-13, the FDI fell further to US$0.62 billion.

(c) As per BOI data, in 2012-13 (July-March), countries which made major direct investment into Pakistan include Hong Kong ($182.5 million), USA ($150.5 million), UK ($143.5 million) and Switzerland ($112.9 million).

(d) During 2012-13 (July-March) few countries transferred their FDI out of Pakistan which includes Norway, Netherlands, Singapore and UAE. It means their FDI inflow was limited than their outflow during this period.

(e) The major investing countries in Pakistan include USA, UK, U.A.E., Japan, Hong Kong and Switzerland.

(f) The major sectors which have attracted FDI inflows are oil and gas, financial business, construction, trade, power and communication sectors.
FDI flow from USA has been on a decline since 2008-09. In 2007-08, total FDI inflow from USA was $1309 million which reduced gradually to $870 million in 2008-09; $468 million in 2009-10; $238 million in 2010-11 and $233 million in 2011-12. During July-March 2012-13, FDI inflow from USA stood at only $151.

FDI flow from United Kingdom has also shown a declining trend from $860 million in 2006-07 to $295 million in 2009-10 and $207 million in 2011-12. During July-March 2012-13, FDI inflow from UK stood at $144 million.

The economic impacts of declining investments are summarized below:

(a) The negative growth in Foreign Direct Investment has and continues to adversely affect country's economic growth as FDI plays a vital role in the development of any country.

(b) The falling FDI will also result in limited technology transfer and creation of new employment opportunities.

(c) Research suggests that a country which attracts higher FDI inflows can boost its exports and thus achieve higher level of economic growth. Thus, exports are likely to suffer due to declining investment in Pakistan.

(d) The declining FDI trend will also give a negative signal to the new global investors to come to Pakistan.

We propose the following short and long term solutions to overcome the issue of declining investments in Pakistan:

(a) The major hurdles which are hindering FDI inflows into Pakistan viz. energy crisis and unstable security situation need to be tacked by the government on war-footing basis.
(b) The government should adopt long-term consistent economic policies to woo investors, as frequent changes in policies distract foreign investors. Similarly, it should ensure providing an investor-friendly climate.

(c) The economic governance need to be improved to attract foreign and domestic investment. There should also be coordination in policies of different government agencies, accountability and transparency.

(d) The government should hold consultation with the existing investors in Pakistan to overcome their business bottlenecks. If they are satisfied, other international investors will follow suit.

(e) The government should provide some kind of tax and other incentives to the domestic investors to expand their business. This would encourage the foreign investors to bring their capital into Pakistan.

(f) The government should make an assessment of regulatory impediments that are depriving foreign investors to come to Pakistan and remove them on an urgent basis.

10.2.5 Spiraling Inflation

(a) The skyrocketing inflation has become a major economic ailment for Pakistan and has made it difficult for the common man to survive and make their both ends meet.

(b) Historically, from 1957 to 2013, the inflation rate in Pakistan averaged 8.03%, reaching an all-time high of 37.81% in December, 1973 and a record low of -10.32% in February, 1959. From 2003 to 2012, inflation rate averaged 10.60%, reaching an all-time high of 25.33% in August, 2008 and record low of 1.41% in July, 2003.
(c) Inflation rate refers to general rise in prices measured against a standard level of purchasing power. The most well-known measures of inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

(d) Inflation rate in Pakistan is reported by the Pakistan Bureau of Statistics (PBS). There are four Price Indices viz. Consumer Price Index (CPI); Wholesale Price Index (WPI); Sensitive Price Index (SPI) and GDP deflator. CPI covers retail prices of 374 items in 35 major cities and reflects changes in living cost of urban areas.

(e) According to PBS data, the average inflation in Pakistan during July-January of FY 2012-13, climbed to 8.3%. In April 2013, the inflation rate stood at 5.80%.

(f) Major categories in CPI include food and non-alcoholic beverages (35%); housing, water, electricity, gas and fuels (29%); clothing and footwear (8%); transport (7%); furnishings and household equipment (4%); education (4%); communication (3%); health (2%) and recreation and culture, restaurants and hotels, alcoholic beverages and tobacco and other goods and services (8%).

(g) Deficit budgeting is a one of the major causes of inflation in Pakistan as printing and circulation of more paper currency in the market gives rise to inflationary pressure. The government resorts to currency printing in view of the fact that it is unable to cover the budget deficit from tax collections and foreign aid.

(h) The government has constituted a National Price Monitoring Committee under the chairmanship of Secretary Finance, which is mandated to review the price and supply position of essential items in consultation with provincial
The economic impacts of inflation are summarized below:

(a) Inflation growth is much higher than the income, which is declining the standard of living of people.

(b) Inflation is having a negative impact on distribution of wealth and balance of payment position of Pakistan.

(c) Inflation is eroding the viability of all segments of the economy and lowering the economic growth rate.

(d) Inflation is reducing the money value, leading to uncertainty of value of gains and losses of borrowers, lenders, buyers and sellers. This in turn discourages saving and investment.

(e) Inflation is discouraging inflow of foreign investments into the country.

(f) Inflation is increasing rate of poverty and unemployment. The poor families are forced to promote child labor so that they can at least survive and satisfy their hunger.

We propose the following short and long term solutions to overcome the inflation in Pakistan:

(a) Strategic planning is required to combat inflation. A prudent monetary policy need to be developed, backed by substantial fiscal adjustments, to ease government’s funding requirement and control inflation.

(b) The government should immediately waive of all kinds of taxes and levies on essential commodities like flour, sugar,
(c) The government should make immediate crack down on hoarders of food items, (irrespective of their political affiliations) that result in artificial inflation.

(d) Cost and Management Accountants may be given a role to carry out ‘cost-profit analyses’ of goods available in market to discourage profiteering by producers or middlemen or retailers.

(e) Government may consider forming nation-wide network of ‘Consumer Societies or Associations’ to assert pressure on the Retailers Associations not to charge excessive profits on essential items. The provincial government may be asked to support these Societies.

(f) The government needs to encourage domestic production instead of relying on imports and give preference to investment in consumer goods instead of luxury items.

(g) The government should put in place a strong monitoring system at different levels to have a sound evaluation of the process at every stage. The professional services of cost accountants can be hired for this purpose.

(h) The government should strictly control the money supply in order to bring down inflation. The State Bank may be asked to focus its attention to keep inflation close to the target of five percent.

(i) The government should give priority to agricultural growth and improve the supply chain of high value crops to control prices of essential commodities in the market.
There is an urgent need to restrict government borrowing to curtail excessive monetary growth – leading to inflationary pressure. A ceiling may be imposed by the government itself.

10.2.6 Corruption

(a) As per the Corruption Perception Index 2012 (CPI) of Transparency International (TI), Pakistan ranks at 139th position, out of total 174 countries. It further reveals that police continue to be considered as most corrupt sector in Pakistan. In fact, the police have been ranked the most corrupt institution in Pakistan for the fourth time in surveys conducted by Transparency International in 2002, 2006, 2009 and 2010.

(b) Transparency International (TI) has revealed that during last three years, corruption has cost the nation more than Rs. 3 trillion per annum in selected areas. This figure does not include the loot and plunder of national wealth in mega scandals like Steel Mill scam, rental power plants frauds, NICL, Hajj scandals etc.

(c) TI further reveals that corruption is steadily rising at the pace of 15 to 20 percent annually in Pakistan. It further says that the country lost Rs. 1,100 billion to corruption in 2011 compared to Rs. 825 billion in 2010 and Rs.450 billion in 2009.

(d) According to TI, there has been no check on corruption in Pakistan as anti-corruption institutions i.e. NAB and FIA have sometimes been siding with the corrupt elements by distorting and manipulating evidences.

(e) Former Pakistani Finance Minister, Mr. Shaukat Tareen, in a statement, had said that corruption in Federal Board of Revenue (FBR) alone stood at Rs. 500 billion, whereas
state enterprises like PIA, WAPDA, Pakistan Steel Mills and Railways eat up Rs. 300 billion of tax payers’ money.

(f) In 2007, World Bank & IFC conducted ‘Enterprise Surveys’, in which 59% companies identified corruption as a major constraint to doing business, and 48% companies in Pakistan expect to give gifts to public officials 'to get things done'. This observation is also shared by World Economic Forum Global Competitiveness Report 2012-2013, in which companies indicated corruption as most problematic factor for doing business.

The economic impacts of corruption are summarized below:

(a) Rampant corruption has eroded the efficiency in public sector enterprises, which have become a perpetual drain on the national budget.

(b) Top-to-down corruption in the government has discouraged people to pay taxes, as they expect no return in terms of social welfare, social security and better health and education facilities.

(c) Corrupt environment has created injustice in the society, which has led to violence and criminal activities.

(d) Pakistan’s image as a ‘corrupt country’ internationally, has deterred foreign capital and investment inflows.

(e) Corruption by the police has resulted in lack of confidence in authorities and a culture of lawlessness.

(f) Corruption has hindered good governance and weakened the democratic institutions in the country.

(g) Corruption has hampered economic growth as well as the ability of the government to raise taxes. This has led to
promotion of informal businesses. It is a fact that due to corruption in tax machinery and complex tax collection procedures, the businesses avoid getting registered for tax purposes.

We propose the following short and long term solutions to overcome the corruption in Pakistan:

(a) Political will is the key driver of systematic change in corruption environment. A nation-wide anti-corruption reform should be undertaken by the new government in public and civil services.

(b) NAB should be given more powers and independency to check and take action against corruption cases. It should be truly independent of any executive or political control to investigate into allegations of corruption against politicians, bureaucrats etc.

(c) A ‘code of conduct’ should be framed for public servants and parliamentarians. Through an act of parliament, it should be made obligatory for them to follow the code.

(d) A fool-proof accountability system should be implemented. The business community and the civil society should be associated in anti-corruption reforms and initiatives, to keep a check and balance on NAB.

(e) There should be regular effective audit of personal bank accounts of politicians and bureaucrats.

(f) The recruitment process in the law enforcement agencies should be strictly based on merit and professional standards, without political interference. The pay structure should be reasonable to discourage corruption.
The civil society and NGOs should be associated with government agencies and committees, in advisory and oversight roles so that they can act as "watchdogs" in fighting against corruption.

The government should seriously consider setting up of an independent ‘Anti-Corruption Ombudsmen’ at federal, provincial and local levels, to deal with complaints against the conduct of government officials and agencies dealing with public. The proposed Ombudsmen should dispose of corruption cases, involving abuse of power, illegal gratification and misappropriation of property, kickbacks and commissions, expeditiously.

**Growing underground economy**

The unaccounted economic activity, not reflected in national statistics, is termed as informal or unofficial, or undocumented or black economy. According to estimates, Pakistan’s informal economy is larger than previously approximated and expanding at rapid pace; whereas formal sector appears to be on retreat.

A research conducted in 2012 by PIDE (Mr. Ali Kemal and Mr. Ahmed Waqar Qasim) reveals that the size of informal economy in 2008 ranged 74% to 91% of formal reported economy. They concluded that Pakistan’s GDP is understated by 91.44% due to non-inclusion of informal business.

According to a research study (Iqbal, Qureshi and Mahmood) the informal economy in Pakistan grew annually at the rate of 27% in 1970s; 14% in 1980s and 26% in 1990s. This means that the real GDP growth rate is usually much higher than the rates quoted on official documents.
A study conducted by LUMS in 2003, concluded that out of Rs100, the government collected only Rs38 and Rs62 went to pockets of taxpayers, tax collectors and practitioners.

A research report prepared by Federal Board of Revenue (FBR) reveals that the informal or underground economy in Pakistan expanded at the rate of 9% from 1977 to 2000.

According to State Bank’s study, the size of Pakistan’s black economy presently stands at around 30% of GDP or around US$70 billion a year. This figure might be even more, considering low tax-to-GDP ratio.

Dr. Aqdas Ali Kazmi in his paper ‘Tax Policy and Resource Mobilization in Pakistan’ estimates that 70% part of the economy consists of 36% pure black economy; 18% exempted economy; 9% illegal economy; 4.5% unrecorded economy and 2.5% informal economy (unreported economy).

Economic experts believe that cumbersome tax structure and regulatory burden is not only preventing informal sector to formalize but also driving existing documented firms to move to informal sector. According to tax experts, number of firms on tax register (income tax and sales tax) has declined during last five years.

Rampant high level of corruption in the government is considered another major factor due to which the people and businesses are reluctant to pay taxes and avoid documentation. Those who are in the tax net are exploited and harassed by the authorities, even if they are honest taxpayers.

The economic impacts of growing underground economy are summarized below:
(a) There is a growing trend that many existing businesses in formal sector are either completely or partially shifting production to the underground economy. This trend was even noticed by the FBR in cigarette making sector where a sharp decline in federal excise occurred during the year 2009-10. The same trend was also observed in vegetable ghee and cooking oil units.

(b) The growing informal sector has brought up serious structural constraints in Pakistan’s formal sector and for its overall, long term growth prospects.

(c) The unorganized sector expansion has caused distortions in the formulation of public policies and investment in infrastructure such as witnessed in energy and power sector.

(d) The informal economy growth has induced higher consumption, leading to more production of goods and services in the economy that is not reflected in the national accounts.

We propose the following short and long term solutions to overcome underground economy in Pakistan:

(a) The SECP should carry out a candid survey of the underlying reasons which restricts the informal or unlisted sector, especially the SMEs, to come under the ambit of corporate structure. The SMEs should be provided adequate financial services to encourage them to register as corporate entities.

(b) The regulatory framework should be simplified to attract the informal and unlisted businesses. Extensive awareness campaign should be initiated to promote the benefits of corporatization.
(c) The taxation structure is quite distorted and leads to tax evasion. This should be rationalized and the registration process be made simpler and user-friendly to speed up corporatization.

(d) The concept of presumptive taxation be gradually reduced and only real income should be taxed. The tax and corporate laws should also be made investor-friendly to promote corporatization in the country.

(e) The generous unjustified tax exemptions given to privileged and protected segments of the society should be withdrawn forthwith.

(f) The tax rate on listed corporate sector should be brought down to 25 percent or else a uniform tax rate of 30 percent be introduced for all businesses, irrespective of their legal status to encourage corporatization.

(g) The government should make it mandatory for the profit-making listed companies to pay dividends to their shareholders. This initiative would improve market liquidity and enable the small investors to share in the earnings of listed companies. This will also generate additional revenue for the government.

(h) The local Chambers of Commerce and Industry be asked to launch “Pay your Taxes” campaign, in order to supplement the efforts of the government to promote the corporate sector.
10.3 Major Causes of Sickness in Public Sector Enterprises

(a) According to Ministry of Finance, the following eight PSEs are causing huge losses of Rs 400 billion to national exchequer and draining fiscal resources. This amounts to around 15% of government’s total annual revenues:

1. Pakistan Railways (PR)
2. Pakistan Electric Power Company (PEPC)
3. Pakistan International Airline (PIA)
4. Pakistan Steel Mill (PSM)
5. National Highway Authority (NHA)
6. Utility Stores Corporation (USC)
7. Trading Corporation of Pakistan (TCP)
8. Pakistan Agricultural Storage Corporation (PASC)

(b) These 8 PSEs received more than US$ 3.5 billion in support from the federal government during the year 2012, which is higher than the federal component of Pakistan’s development budget.

(c) PIA is on top of huge loss making organizations and sustaining losses of Rs. 70 million on daily basis whereas Pakistan Steel Mill is making losses to the tune of Rs. 50 million every day of the year.

(d) The government has provided bail-out packages to PIA and PR recently. In February 2013, Rs100 billion bailout package for PIA was approved by the ECC of Federal Cabinet. Similarly, Rs. 6 billion bail-out package for Pakistan Railways has been announced by Cabinet Committee on Restructuring (CCoR).

(e) According to State Bank of Pakistan, the PSEs have reportedly borrowed a total amount of Rs. 42.7 billion during the first 9 months (July-March) of FY 2012-13.
Pakistan Railways (PR) have almost come to a standstill, still government has not laid off a single employee out of its 110,000 staff, although it admits that PR can be operated with only 40,000 staff. The Pakistan Steel Mills (PSM) also has surplus workforce but none have been removed by the government.

The government has promulgated the ‘Public Sector Companies (Corporate Governance) Rules, 2013’ which is expected to bring about more transparency in PSEs operations and plug their huge losses. The rules will improve the governance framework of public sector companies and minimize political interference in them.

The economic impacts of loss-making public sector entities on the economy are summarized below:

(a) The state owned or public sector enterprises are the ‘white elephants’ of the national economy and are causing loss of billions of Rupees to national exchequer. These are serious drain on government resources.

(b) According to an estimate, Pakistan is losing around 2% of GDP every year due to huge losses by these PSEs.

(c) The bailout packages offered by the government to loss making PSEs is nothing but subsidizing their poor management and corruption. The consumers have to pay for the high price of inefficiency of these PSEs.

(d) The workers lose millions as a result of low wages and poor prospects in these PSEs.

(e) The inefficiency of these losses making public sector organizations are one of the reasons for lack of funds
required for budget purpose by the government and thus contributing to expansion in fiscal deficit.

We propose the following short and long term solutions to revive public sector entities in Pakistan:

(a) The government should make major reshuffles in eight loss making state-owned entities, including induction of independent and professional ‘board of directors’ so as to transform them into profitable units. Private sector should be given major representation on the board of these PSEs.

(b) The government should make it mandatory upon itself not to interfere in the affairs of these PSEs in shape of political appointments, and let them operate independently with complete autonomy under supervision of independent board of directors. They should not be answerable to the government, but only to legislature.

(c) The government should identify those PSEs which may be privatized and assign this task to the Privatization Commission to complete the privatization process with the given time frame.

(d) A committee may be formed by the government to finalize a ‘Restructuring Plan’ for the remaining PSEs. Pakistan Railways and Pakistan Steel Mill should be given priority in restructuring process.

(e) Private Sector representatives with good track record of management, organization and administrative skills, should be appointed as heads of PSEs, especially in PIA, PSM, PR, TCP, PEPC etc.

(f) An independent ‘holding company’ may be formed to replace and take up the role of different administrative
ministries in controlling PSEs. They should be separated from operational interference by the government.

(g) The Auditor General of Pakistan should be appointed auditor for all the State owned Enterprises.
11 CRITERIA FOR THE REVIVAL OF SICK CORPORATE ENTITIES

A corporate entity that has gone sick would have already swallowed huge scarce resources. In order to utilize the assets and infrastructure already created for the project, the project is to be revived from sickness. There is no doubt that the project would have had some weak areas which could have been the cause for the sickness. In spite of this, rehabilitating the sick project is worth considering since the cost of setting up a new unit might be substantially higher as compared to the cost of rehabilitating a viable sick unit. Of course, having known the factors that were responsible for leading the unit to sickness, they can be properly addressed in the revival package. Revival of a sick unit may be necessitated or justified in view of the under lying socio-economic objectives such as the following.

The project may be in a sector that is vital to the economy. Abandoning the project may lead to other socio-economic ill effects. Secondly, there might be many ancillary units dependent on the corporate entity that has gone sick. Unless the sick entity is revived, it will have a chain effect of all such dependent ancillary units becoming sick. Thirdly, banks and financial institutions would have locked up their money in sick ventures. In order to get back the investment of banks and financial institutions, the project is to be revived and made to work again and generate surpluses. Though banks and financial institutions that support a revival program for the sick unit may be required to fund the project again, they will be prepared to implement revival packages if they are convinced that they will, apart from getting back their present investment with interest, also get back their earlier investments that are locked up.

11.1 APPRAISAL OF VIABLE CORPORATE ENTITIES FOR REHABILITATION

Before attempting to rehabilitate a sick unit, a detailed and thorough viability study is to be undertaken to ensure that the revival program will really bear fruits. It is not advisable to venture upon any revival program if there are gray areas that need further study. The viability
study shall enquire into the technical, commercial, managerial and financial aspects.

11.1.1 Technical Appraisal

(a) Study the manufacturing process used by the unit. Ascertain if any new process has since been developed. Explore the necessity of switching over to the latest manufacturing process and study the cost, benefit aspects of such switchover.

(b) Study the production capacity of different production sections and checkup if the production capacities of different sections are perfectly balanced. If there is any production section, which has a lower capacity than that required for perfect balancing, the overall capacity of the plant can be significantly increased without huge investments, by adding the required balancing machinery.

(c) Explore the possibilities of adding additional/special features to the products that will add competitive edge to the product. Also examine the need for changing the product-mix that is in tune with the market requirement.

(d) Find out if any plant/equipment need major repair/overhauling to improve its operating efficiency.

(e) If the locational disadvantages outweigh all other factors, the scope for shifting the location to an advantageous place may be examined and the consequent cost-benefit analysis studied. This may be possible if the firm is functioning in leased premises and owns only the plant and machinery. If the unit is located in own building, the proposal for shifting the plant and machinery to a leased building in an advantages location may also be studied. The building owned by the firm can be leased out to some other firms. The long-term cost benefit analysis will give lead to the acceptability or otherwise of such a proposal.
(f) Study the modifications required, if any in the plant layout so that the material handling time can be reduced which may improve the efficiency of operations and improve the output.

(g) Examine if any of the manufacturing operations that are done in house can be entrusted to outside agencies, which may result in cost reduction.

11.1.2 Commercial Appraisal

(a) Commercial failure of a project will be mainly due to problems relating to the product itself viz, defects/imperfections in product design which may lead to consumer resistance. Such situations indicate that the products offered by competitors have better features that attract consumers. Hence, the scope for product improvement and the cost involved are to be studied.

(b) In spite of consumer acceptance of the product, if the project has gone sick, it is likely that the profit margins might be low. Minor modifications in designing and packing the product with upward revision in price may be accepted by the market which may bring better returns to the company. This aspect may be studied by carrying out test marketing for the improved product.

(c) Every product follows a life cycle which passes through four stages i.e. introduction, rapid expansion, maturity and decline. Profit margins shrink and signs of sickness appear when the product is in its ‘decline’ stage. Product innovation can only sustain the product at this stage. The decline once started cannot be contained for long in spite of product innovations. Product diversification may prove to be a feasible solution. Hence for rehabilitating a unit whose product has already reached its ‘decline’ stage, the feasibility of switching over to diversified products making use of the existing production facilities is to be studied. The cost-benefit analysis of additional investments needed for
product diversification and additional benefits that may accrue are to be analyzed.

11.1.3 Management Appraisal

A good project in the hands of an ineffective management turns the project bad. Similarly a good management is capable making an average project, a success. Hence the first thing under management appraisal is to study whether the sickness is due to reasons beyond the control of the present management or due to ineffective management. If the sickness is due to reasons beyond the control of the management, for any revival package to come out successful, it should be first ascertained if the management is still committed to the project and is serious about reviving the unit. The management’s commitment and seriousness may be indicated by

(a) Its readiness to inject additional funds to revive the unit.

(b) Its readiness to strengthen the existing management by agreeing to induct professionals as directors at various functional areas like technical, finance, marketing or research and development etc.

The managerial appraisal shall suggest the required changes in the existing organizational setup of the unit and also shall study the possible reduction in the man power that can be achieved without affecting the organizational efficiency, the likely compensation payable for retrenchment etc.

11.1.4 Financial Appraisal

Since appraisal of all other areas have a financial commitment in one form or the other, financial appraisal assumes greater importance. All aspects of financial reconstruction need to be considered and analyzed. When a project that has long term debt component in its capital structure becomes sick, it becomes necessary to ease the burden of debt to enable the sick unit to recover from its sickness.
This necessitates restructuring of the debts. In general, banks and financial institutions offer the following concessions in their package of rehabilitation assistance.

(a) Reduction in interest rate of existing loans.

(b) Conversion of short-term loans into long-term loans.

(c) Conversion of part of long-term loans into equity.

(d) Funding of the overdue interest (unpaid interest) and making it repayable in easy installments. The funded interest component may carry concessional rate of interest or even at times bears no interest.

(e) Offering a revised schedule of repayment for the principal components of term loan.

(f) Sanction of additional loan to meet the additional capital expenditure.

(g) Enhancement of working capital limits and regularizing the irregular portion of working capital finance already availed. If any asset is found not useful, the wise choice would be to dispose of the asset and use the amount realized to support the rehabilitation program.
12 CHALLENGES FACED BY SMALL VERSUS LARGE COMPANIES FOR REVIVAL

12.1 PAKISTAN’S SME SECTOR

Small and Medium Enterprises (SMEs) in Pakistan are instrumental in poverty reduction and job creation as they make a significant contribution to the country’s economy in terms of value-addition and employment generation.

During the period 1950s to 1980’s, the Pakistan's economic policy remained focused on large enterprise development. After late 1990s, there has been a policy shift in the economic policy focusing on promotion of SMEs. A Small and Medium Enterprises Development Authority (SMEDA) was established in 1998 and SME Banks were set up in 2002.

Today, Pakistan’s SME sector constitutes 90% of total enterprises, contributing 38% to GDP, 25% to exports and engaging about 80% non-agricultural labor force. There are 3.9 Million SMEs in Pakistan, majority of which are based in Punjab and Sindh. In Karachi alone over 16,000 industrial units are operating, out of which majority are SMEs. Karachi’s industries are providing employment to 1.5 million labor force.

12.2 INTERNATIONAL PERSPECTIVE

Pakistan should learn lesson from experiences of SMEs-driven success stories of Japan, Taiwan, China and Singapore.

(a) In Japan, over 99% of all business is SMEs, which employ huge local workforce and account for major proportion of economic output. Although most of these SMEs are not sizeable, but they form the backbone of manufacturing, services and export supply chain industry of Japan.
(b) **Taiwan** is a small island but have around 98% SMEs, contributing 85% to the Taiwan’s GDP and engaging over 80% of non-agricultural work force. Today, Taiwan is the 6\(^{th}\) largest per capita earner in Asia and has 5\(^{th}\) largest foreign exchange reserves in the world. The Taiwanese government provide continuous support to SMEs.

(c) **In China**, there are around 25 million registered small businesses. According to China’s own estimates for 2012, SMEs contribute 75% share in GDP and engage 85% non-agricultural labor force. The Chinese government promoted research and innovation in the SME sector.

(d) **In Singapore**, SMEs are considered an important pillar of national economy, contributing over 50% of the economic output and around 70% of employment.

### 12.3 Challenges face by Small Versus Large Corporate Entities

Some of the challenges faced by small and medium enterprises as compared to large companies include the following:

#### 12.3.1 Access to finance

SME sector faces difficulties of arranging finance to run their business operations. It has been observed that banks are reluctant to extend loans to SMEs because they cannot offer collateral required by banks.

#### 12.3.2 Marketing and Access to Market

Most of the SMEs struggle to market their products locally as well as in the international markets as they do not have enough resources. Most SMEs even do not have their websites to introduce their products and services.
12.3.3 Systems and Procedures

Generally SMEs lack financial systems, procurement and inventory management systems, policies & procedures and internal controls to manage their business effectively. Therefore, their efficiency is affected to offer products and services in the competitive market.

12.3.4 Skilled Labor

SMEs also lack skilled labor as they do not have resources to employ and train such resources. Moreover, employees turn out ratio in SME sector is also high as they cannot offer them a career leading to promotions, increments in pay and promising future. Employees leave SMEs to join large organizations to secure their future.

12.3.5 Lack of Quality Systems and Standards

SMEs do not have enough resources to implement quality management systems and standards, which has now become the requirement of many importing countries.

12.3.6 Branding

SMEs cannot afford to develop and market their brands. They do not register their products with Intellectual Property Organization (IPO) for copy rights, trademarks, patents and industrial designs.

12.3.7 Research and Development

SMEs do not adequate resources to spend on research and development, which is necessary for product development, generation of innovative ideas and turning these ideas into products and services.
12.4 MEASURES REQUIRED BY GOVERNMENT TO SUPPORT SMEs

The Government should extend the following support to boost SMEs capabilities:

(a) Government through SMEDA should review the development strategies for SMEs to help them strengthen their business competitiveness by upgrading skills and adopting new technologies and innovative processes.

(b) SMEDA should enhance support for SMEs in the areas of productivity, innovation and capability upgrading. This would help SMEs to boost their capabilities, restructure their business and remain competitive.

(c) Like Singapore, SMEDA may consider introducing a Productivity and Innovation Credit (PIC) cash bonus for companies that invest some amount in productivity and innovation activities during a year. This will help SMEs defray the cost of implementing their productivity improvements.

(d) SMEDA may consider giving incentive to those SMEs, which lead in innovation and new product development.

(e) The government can help the SME sector in nurturing talent by initiating a ‘Talent-hunt’ program that targets polytechnic students. The selected youth may be sponsored a study award, followed by a job opportunity upon graduation or completion of the vocational training. This would help the SMEs build a strong pool of local talents for sustainable business growth.

(f) The Government may consider extending consultancy services for the SMEs through SMEDA, in the areas of export market assessment, market entry, business restructuring through internationalization, capacity-building
of SMEs, and preparation of business plans and feasibility studies. For this purpose, SMEDA may also offer facilities and financial support to SMES under patronage of Trade Development Authority of Pakistan (TDAP).

(g) The government should play a catalytic role in establishing collaborations of SMEs with large enterprises in areas of product development, technology sharing and transfer and sharing of best operational practices.

(h) The government should give special priority to the SMEs sector in its economic growth strategy, with a view to enhance industrial productivity and create employment opportunities.

(i) SMEs should be provided special incentives and tax concessions to set up industries in the Special Economic Zones (SEZ) and other industrial estates of the country. One window facility for SMEs should be provided.

(j) The government should provide soft loans to SMEs through banks on preferential basis with minimum conditions. SMEs should also be provided easy access to export finance on easy and softer terms.

(k) SMEs may be allowed duty free import of machinery, plant and equipment with BMR facility.

(l) Small industrial parks for SMEs should be developed in major cities with basic infrastructure facilities.

(m) SMEs may be exempted from lengthy audit procedures of different government departments.

(n) The regulatory procedures for registration of SMEs in formal sector should be simplified. All major bottlenecks in way of SME growth should be done away with.
SMEs should be relieved from tax burden by providing as many exemptions as possible. This would encourage more SMEs to get registered and play their role in economic development of the country.

12.5 Incentives for Employment Creation through SMEs

(a) The government should introduce measures to encourage SMEs to recruit new employees. This initiative will provide employment opportunities to those people who are unemployed.

(b) In USA, the HIRE Act provides financial incentive for small businesses to employ previously unemployed workers. In UK, a Youth Contract Scheme has been launched in 2012, which provides wage subsidies for SMEs which offers work placements to unemployed in ages between 16 to 24 years.

12.6 Development of SME Policy

(a) The government should develop a comprehensive SME Policy that defines the role of concerned public sector institutions. Such a Policy framework will provide the required direction and focus for achieving SME-led economic growth resulting in job creation and reduction in poverty.

(b) The proposed SME Policy should provide short term, medium-term and long-term policy framework with an implementation mechanism to achieve economic growth, based on SME-led private sector development.

(c) The government may consider a proposal for setting-up an ‘SME Exchange’. In India, such a proposal is under active consideration for which necessary changes and
amendments are being made in the rules and regulations of cash market for making a provision for SME Platform.
13 Capacity of Quasi-Judicial Authorities to Handle Cases for Revival

Quasi-Judicial Authorities for the corporate entities include the following:

a) Securities and Exchange Commission of Pakistan (SECP)

b) Federal Board of Revenue (FBR) - Tax Authority

c) Relevant Regulatory Authorities (like Pakistan Telecommunication Authority etc.)

d) Relevant Department of Government (like Ministry of Health etc.)

The above quasi-judicial authorities are made for regulating the specific functions like corporate reporting, tax collection and regulation etc. Their current resources are insufficient to handle the cases of rehabilitation filed in accordance with the relevant legal provisions and procedures to be framed. In absence of the relevant legal framework, these authorities do not have knowledge and experience of handling cases for revival. Moreover, they are still not fully aware of the methodology and the procedure to be followed for revival as it has yet to be framed.

Under these circumstances, we recommend the following:

a) The rehabilitation laws should be framed as a first step

b) The quasi-judicial authorities be clearly notified with roles, responsibilities and authorities

c) Capacity-building of quasi-judicial authorities be made to handle revival cases effectively

d) Detailed procedure for filing of applications for revival, criteria for judging the type of sickness and associate remedial measures should be finalized

To revive the sick corporate entities, a rehabilitation structure is required to be formed. The structure may consist of all or any of the following:

a) Ministry of Industries and Production
b) Securities and Exchange Commission of Pakistan (SECP)

c) Federal Board of Revenue (FBR)

d) Banks and DFIs

e) Relevant Chambers of Commerce and Industry or Business Association

f) Any other department, organization or authority as declared by Government
14 CHANGES REQUIRED IN THE LEGAL FRAMEWORK TO FACILITATE THE REVIVAL OF SICK ENTITIES

Companies Ordinance, 1984 provides procedure for winding up of companies under the following headings:

a) Voluntary Winding-up

b) Winding-up by court

Winding-up is a cumbersome job as it requires a lot of documentation, winding-up-related costs and long processing time. As the companies under winding process are facing serious financial and business issues, the winding up process should be made simple for them. Securities and Exchange Commission of Pakistan (SECP) should simplify winding up procedures.

a) Minimum necessary documentation should be required from such companies

b) It should be made mandatory to complete the winding process within 90 days.

c) Audit and liquidator and other requirements should either be eliminated or made simple.

d) Special measures should be taken to minimize the costs for winding-up

e) Corporate entities, which have not filed corporate or tax returns for the last five years, should be categorized as dormant companies. A special winding up or revival plan should be offered to them after understanding their specific issues.

f) Tax provisions for such entities should be simplified and softened. Once the company is declared sick, the compulsory filing requirements should be abolished or simplified.

g) All penalties relating to filing and compliance under different laws should be waived off.
h) The prudential regulations and other legal provisions should be relaxed for sick corporate entities to facilitate rescheduling of loans and advances from banks and DFIs, waiver of such loans or markup thereon.

i) The Companies Ordinance, 1984 should be amended to allow capital restructuring of such entities.
15 SIMPLIFICATION OF PROCEDURES TO EXPEDITE THE REVIVAL AND WINDING UP OF COMPANIES

In order to make the rehabilitation procedure simple and expedite the revival process, we recommend the following measures:

a) Review the provisions of Companies Ordinance, 1984 relevant to winding up with a view to simplify the process of winding up, make quick decisions to save time and costs.

b) Make the process of filling application form and attaching documents online.

c) There should be deadlines for:
   a. Review of applications
   b. Discussions, inquiries and approvals
   c. Offering revival package
   d. Winding up of corporate entities

d) The revival or winding up case should be dealt strictly in accordance with the relevant legal provisions and system developed for this purpose.

e) There should be no or minimum costs, if any, associated to winding up or revival

f) Facilitation desks should be set up in various cities for providing all the information and facilitation of companies interested in winding up or revival.

g) Government should make arrangements with financial institutions for providing financial support, rescheduling or eliminating debts and providing other facilities for quick and trouble-free revival or winding up.

h) The budget for revival of sick corporate entities should be arranged and clearly announced.
16 CONCLUSION AND RECOMMENDATIONS

16.1 GENERAL RECOMMENDATIONS:

In order to address the issues and challenges faced by sick corporate entities, we recommend the following:

a) Government should fund those industries who cannot pay their loans, or those having insufficient funds to procure modern and efficient technologies as a measure to revive them, make them competitive and earn foreign exchange in the long-run. Many international funding agencies have dedicated funds for supporting revival of corporate entities facing sickness.

b) Government should announce a plan for public-private partnership scheme to fund such entities and earn its share of profits once these entities are revived.

c) Government may also arrange private investment scheme by bringing investors and sick entities into joint-venture, partnership or other joint management control.

d) Tax holiday should be announced for a period of five years for sick corporate entities in order to help them in their revival efforts.

e) Pending tax liabilities of sick corporate entities should be waived off. Similarly, fees for corporate returns should also be done away with for these entities.

f) Government should provide support to sick corporate entities in implementation of quality standards, costing systems and Enterprise Resource Planning (ERP) systems to improve quality, control costs and better financial management.

g) With the help of Trade Development Authority of Pakistan (TDAP), Pakistani missions abroad and Ministry of Industries and Production, Government should find new markets for Pakistani products and negotiate for abolishment of restrictions.
in various international markets to help export-oriented corporate sector promote its exports.

h) Government should conduct specific studies in detail related to industries mentioned below.

16.2 **INDUSTRY SPECIFIC RECOMMENDATIONS:**

We recommend the following measures concerning major sectors of the economy:

16.2.1 **Textile**

(a) The government should consider giving preferential treatment to the textile sector by providing it un-interrupted electricity and gas supply. The present situation is that around 800 units have been closed down only in Punjab, causing massive unemployment of approximately 1,500,000 workers.

(b) The investment volume is not satisfactory in the textile sector as compared to the potential available. Government should take serious step to survive the textile industry by promoting the investment.

(c) The sub-rule (6) under SRO 801(I)/2002 dated 15/11/2002 should be re-enacted in letter and spirit, enabling the SME textile industry to avail the DTRE facility.

(d) The requirements of postdated cheques / bank guarantee, amounting to the value of import duty and taxes should be done away with. Similarly, requirement of indemnity bond, customs audit / inspections should also be discontinued. Currently there are five different departments involved in DTRE inspections and verifications. These powers should be delegated to a single authority to reduce the bureaucratic hassle.
(e) Textile sector entities, especially small and medium sized, having outstanding loans should be facilitated to reschedule their loans on easy terms, preferably at reduced mark-up rates.

(f) With the help of Trade Development Authority of Pakistan (TDAP), Pakistani missions abroad and Ministry of Industries and Production, Government should find new markets for textile products and negotiate for abolishment of quota and other restrictions in various international markets to help textile sector promote their exports.

(g) Export of raw materials like cotton should be discouraged to make it available for value-added products.

16.2.2 Cement

(a) The government should exploit the coal reserves in the country for making it available to the cement industry, which could provide them a cheap and constant source of energy for production.

(b) Petroleum coke is a fuel, commonly used universally, as a substitute of coal in cement industry. The Government should reduce the custom duty on import of Petroleum coke from 5% to zero percent, as given on coal, in order to reduce the input cost of the cement industry.

(c) Import of Pet coke (HS Code 2713.1100) be freely allowed from India via sea and land routes at Attari and Wagah entry points, as is being done in case of cement export from Pakistan to India.

(d) Import of cement machinery should be exempted from the levy of sales tax.

(e) Federal Excise Duty (FED) on cement may be reduced to Rs. 200 per ton from present Rs. 500 per ton. Similarly, the withholding tax on power bills of cement units may also be abolished to help the cement industry bring down its huge cost of production.
(f) The government must seek trade concession for the cement industry by using its favorable diplomatic relations with the Middle Eastern and Gulf countries. Trade Development Authority of Pakistan (TDAP) should be advised to include cement in their exhibitors’ profile.

16.2.3 Sugar

(a) The Ministry of Commerce, Government of Pakistan, has allowed export of sugar vide public notice issued on December 14, 2012. Accordingly, the State Bank of Pakistan (SBP) vide its Circular # 11 of December 18, 2012 has notified the mechanism for processing of such cases, whereby contracts for sugar export shall have to be registered against irrevocable letters of credit and advance payments. However, it has been observed by the Pakistan Sugar Mills Association (PSMA) that State Bank of Pakistan (SBP) also entertained paper contracts, which resulted in early exhaust of quota. It is therefore suggested that the above SBP circular may be complied with strictly and contracts, which are to be registered with SBP should only be made contingent with irrevocable letters of credit and advance payment.

(b) The Government as well as sugar mills should make combined efforts to assist the farmers, through Agricultural Research Institutes, in planting high sucrose recovery varieties of sugar cane and in combating plant diseases through use of better pesticides. This would improve yield per hectare.

(c) The government should encourage formation of ‘Supervisory Committees’, consisting of representatives of growers, sugar mills, agricultural department and local administration, to deal with price, supply and other related issues between the growers and the sugar mills management.

(d) The government should determine the ‘support price’ of sugarcane crop on the basis of economic factors like increase in prices of inputs and sucrose recovery, etc. to equally protect the interest of all stakeholders.
The government should seriously resolve the key issue of marketing of sugarcane from grower to mill owners and of refined sugar from mill to the market. It should strictly reduce or eliminate the role of middlemen in order to control hoarding and artificial hike in price of sugar in the market.

It has been observed that the growers of sugarcane are not paid by sugar mills on time and they face financial problems. In order to motivate the growers to maximize the production, the payments should be made at the time of supply.

The government should provide special incentives to those sugar mills, which co-generate energy from Bagasse during off-season or produce paper products. This would not only create additional revenue for the sugar mills but will also help the country in meeting the electricity shortfall.

The Pakistani exporters are facing great hardships in exporting sugar through land routes to India, which is the biggest importer of our sugar. The government must take up this issue with the Indian government to facilitate exports of sugar from Pakistan on bilateral basis.

16.2.4 Automobile

The government should persuade the car-assemblers to produce cheaper quality cars in accordance with the purchasing powers of the consumers in Pakistan.

The government must encourage the foreign auto-assemblers in Pakistan to transfer technology in a given time frame for localization and strengthening the auto industry.

The government should frame regulation to make it a binding on the automobile manufacturers to offer safety measures such as anti-lock breaking system (ABS), lower CO emissions, etc. along with quality specifications in order to ensure standard safety and quality standards in the auto industry.
(d) The government should develop a policy for the dealership/supply chain structure in auto industry as these do not have any significant role and are merely acting as agents of car manufacturers. Due to delay in deliveries, premiums are charged in secondary markets. There is need to create a meaningful competition for the car dealers to put in place perfect competition for the industry.

(e) Due to rising fuel prices globally, the government should encourage switching over to ethanol fuel as used in Brazil and other countries. Ethanol Fuel is produced by Molasses, which is produced in good quantity by the sugar mills in Pakistan. Since the engines of locally assembled cars do not support ethanol, as such the government should facilitate the industry in acquiring the technology to produce ethanol compatible cars. In Brazil they use 90% Ethanol and 10% petroleum whereas Pakistani cars with default engines can afford only 3% Ethanol.

16.2.5 Leather

(a) The government should consider realistic increase in duty drawback rates on export of finished leather for goat/sheep skins and cow/buffalo hides and leather as the existing rates on these items are very low (ranging between 0.80% to 2.12%). Similarly, the withholding tax on leather exports should also be reduced from 1% to 0.5 percent.

(b) The government should impose a complete ban on export of wet blue leather of all kinds of raw hide/skin and pickled leather, in order to avoid shortage of these essential raw materials for the local leather industry. Moreover, stringent measures should be taken to discourage massive smuggling of live animals from the borders to avoid shortage of hides and skins.

(c) The government should consider allowing duty free import of essential accessories to the leather industry for value addition in leather products such as leather shoes, bags, garments etc.

(d) The government should study incentives provided to the leather industry in India, Bangladesh and China by their respective
governments such as support for technology up-gradation, setting up of Leather Development Centers, leather and footwear parks, combined treatment plants etc. It should also consider framing a ‘leather development plan’ like in India.

16.2.6 Pharmaceutical

(a) The pharmaceutical industry has a long standing demand for allowing a reasonable price increase against inflation and heavy increase in input costs. The government must consider their legitimate demand after carrying out mandatory cost audit of each product through cost auditors so that the increase in prices and profits are not so excessive that put additional burden on the common man.

(b) The Drug Regulatory Authority (DRA) need to be revamped and restructure to transform it into a dynamic and professional body that may develop effective policies for the pharmaceutical industry.

(c) The government should offer tax incentives to attract investments from foreign pharmaceutical companies and also to encourage the local pharmaceutical industry to produce quality medicine.

(d) The government should support research and development initiatives in the pharmaceutical sector, like in other countries, to ensure availability of quality drugs in the country. In this connection, the government may also consider release of grants to pharmaceutical companies on meeting set criteria.

(e) The government should make it mandatory through legislation for every pharmaceutical company to produce at least one essential raw material in Pakistan so as to reduce heavy dependence on imports of costly raw material from other countries. This would not only save foreign exchange but also help bring down prices of medicines in Pakistan which would ultimately benefit the people.

(f) The government must take strict measures to prevent sale of fake, sub-standard and non-registered drugs as well as hoarding of medicines, by imposing penalties and making legislation.
16.2.7 Fertilizer

(a) Natural gas is an essential input in fertilizer which contributes about 80% to total production cost as fuel and feedstock. However, continuous shortage in gas supply by SSGC/SNGC has resulted in deep crisis for this industry. The fertilizer sector is receiving less than 20% gas on 75% load basis whereas other industries are receiving 50% gas on full load basis, which is unjustified for this industry. The government should direct the SNGPL to resume full and immediate gas to the deprived SNGPL based fertilizer plants. The government should also resume gas supply to all plants on permanent basis so that they remain viable for longer run.

(b) The Economic Coordination Committee (ECC) has approved a long term plan for the fertilizer industry in 2013 under which gas supply will be made to fertilizer plants from dedicated gas supply sources. A Committee has also been established to develop modalities, including legal and financing arrangement for the project and to determine better cost effective structure. Since Chemical Fertilizer industry has come under the purview of cost audit, as such it is suggested that the government should include the representative of ICMA Pakistan in the said Committee.

(c) The government should ensure strict quality control and monitoring in order to prevent import of sub-standard fertilizer products and also to curb adulteration and other malpractices in this sector.

(d) The government should make suitable arrangement for education of farmers on use of balanced fertilizer so as to neutralize the adverse impact of constant use of nitrogenous fertilizers.

16.2.8 Edible Oil

(a) Import of edible oil is a heavy drain on our foreign exchange. Pakistan can save about US$2 billion annually by encouraging the domestic edible oil sector. To achieve this, the government should provide incentives for proper farming, production, processing and marketing of oil seeds.
(b) The price of locally produced edible oil is fixed on the basis of cost of imported oil due to which the farmers have to suffer as they are on mercy of industry and middlemen, who procure their produce on this basis. As such, the farmers are less inclined to grow oil seeds and prefer other crops for better gain. The government should, therefore, resolve this issue on an urgent for the benefit of the farmers and increase in production of oil seed crop in the country.

(c) The yield per acre of all oil seed crops (i.e. cottonseed, sunflower, canola, rapeseed and mustard) ranges between 15% to 45% of their potential due to water scarcity and lack of application of latest technology and farming techniques. The government should take measures to remove these bottlenecks to increase output.

(d) There is good potential for olive oil cultivation in Potohar region and Baluchistan. The government should take up this project in collaboration with the private sector to start commercial production of olive oil in bulk that will help the trend of fortifying edible oils with olive oil.

(e) The government should consider doing away with the import duty on crude palm oil, as in India and Bangladesh, in order to promote the local refining industry.

16.2.9 Oil and gas

(a) The government should give high priority to investments in the oil and gas sector for which it should devise a set of incentives to encourage the petroleum companies to explore, develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.

(b) There are abundant untapped reserves of oil and gas available in Sindh, Baluchistan and other parts of the country which need to be explored to end the existing energy crisis. The government should capitalize upon this huge potential as an increasing gap between supply and demand of oil and gas in the country would be a big challenge in years to come.
(c) The production from existing oil and gas reserves are on steep decline and rapidly exhausting. According to an estimate, we are left with oil reserves for only 10 years and gas reserves for about 15 to 20 years. The government should, therefore, take this seriously and ask the oil and gas exploration companies to discover new oil and gas fields.

(d) The government should take immediate measures for removing all the grievances of the oil and gas exploration companies which are hindering it in adding new discoveries, such as security issues.

(e) The government should frequently revise the petroleum policies, keeping in view the global oil/gas exploration – production scenario and domestic ground realities.

(f) The government should also facilitate in providing training to geoscientists and engineers in latest exploration and production skills and also in promoting intra-industry and intra-academia synergies.

16.2.10 Information Technology

(a) The government should devise a national IT policy which should focus on both the private and public sector. This is important if we want to tap the true potential of IT industry in Pakistan.

(b) The government should support the IT industry in marketing software internationally in order to get maximum projects and investment in research projects.

(c) The government should issue directives to all federal and provincial governments, affiliated departments and semi government organizations to procure software only through local IT companies.

(d) The government should exempt IT businesses from corporate income tax till 2020. Similarly, tax relief be granted to business units on amounts spent on software applications and related equipment.
(e) Government should establish effective Information Technology Parks (ITPs) in Federal & Provincial Capitals on Public Private Partnership basis so that IT companies concentrate on their core business and not on peripheral issues related to facilities. ITPs should also act as a showcase to the investors.

(f) The government should invest in various fiscal and non-fiscal incentives to nurture, develop, and promote the use of IT in organizations, to increase their efficiency and productivity.

(g) The IT companies should be provided credit from banks on soft and easy terms to promote IT industry.

(h) The threshold level for floating IT companies on the local stock market should be lowered to encourage listings of as many IT companies on the stock exchange.

(i) The professional Institutes, especially those in IT subjects, should produce high-quality graduates to meet growing demand both locally and internationally.

16.2.11 Telecommunication

(a) The government should announce an integrated and focused ICT policy for a period of 10 years, rather than segmented policy frameworks. Emerging cross-cutting segments e.g. mobile financial services should be a part of such policy.

(b) The 3G/4G spectrum auction in 1900/2100MHz frequency bands should be completed in 2014. The pending spectrum auction (of over 600MHz in 1.9 GHz/3.1GHz bands to existing FLL, WLL & CVAS operators) should also be finished this year so that operators get more spectrums to expand.

(c) The government should offer an incentive package to telecom industry on issues like unverified SIMs, illegal international incoming traffic and same International Mobile Station Equipment Identity (IMEI) number for cell phones. The government should play an active role to stop this destructive competition environment.
(d) The government should not allow or grant more licenses until the maturity of present telecom sector, which is already going through astronomical survival pressures.

(e) The government should consider special subsidy/incentives to the telecom sector for providing services in the war zone where the losses are very high due to loss of revenue, high repair and maintenance cost and destruction of installation.

(f) The government should encourage the telecom companies to expand their service network to rural areas in addition to universal service fund (USF).

(g) Main services providing exchanges must be exempted from load shedding to facilitate uninterrupted, smooth and regular supply of services to all the important/vital installations, service users.

(h) The concept of convergence of regulatory bodies should be introduced so that all types of telecom services may be dealt with under a single umbrella

(i) Excise duty on telecommunications services is quite high and need to be revised downward to 16% so as to bring the telecom services at par with other services subjected to FED. This will also provide some relief to public at large.

16.2.12 Housing and construction

(a) The government should encourage investment in the construction industry of Pakistan which will bring the country out from the current economic turmoil.

(b) The House Building Finance Company (HBFC) is the main authority for extending loan for house building. Due to slow disbursement of loans by HBFC, many projects have been delayed. The government and State Bank should come forward to finance projects, requiring large money, on easy terms. This could facilitate in development and expansion of the construction industry.
(c) Banks and DFIs should extend credit facilities for balancing, modernization and replacement of machinery used in housing and construction industry and the State Bank should direct the Commercial Banks to allocate a certain percentage of the credit to housing sector.

(d) The HBFCL and other financial institutions should prepare and introduce packages at preferential mark up to provide affordable credit to low income groups.

(e) Sui Southern Gas Company (SGC) has put a freeze on gas connections for high rise buildings. This restriction should be removed immediately to provide relief to construction industry.

(f) The Government must ensure implementation of all recommendations of the National Housing Policy 2001 for the development of construction industry.

(g) The presumptive tax on construction companies should not be more than 1% on yearly receipts. Similarly, the stamp duties and registration fee be adequately reduced to an aggregate 1% which will in turn increase government revenue as more documentation will take place.

(h) The government should advise the HBFC to invest minimum Rs. 10 Billion on annual basis in small housing i.e. apartments smaller than 1500 sq. ft. and 120 sq. yards bungalows

(i) The annual disbursement of HBFCL loans should be substantially enhanced to Rs. 20 Billion to overcome the housing shortage.

(j) The Government should not charge stamp duty, registration fee etc. on housing mortgage. Duties and taxes on construction materials be rationalized and reduced to make construction affordable.

(k) Import of important plant and machinery required for the construction industry should be allowed at zero rated duty such as tower cranes, batching plants, elevators, solar panels etc.
(l) The Government must initiate steps to eradicate the menace of land grabbing, encroachment, kidnapping for ransom, threat to life and property of builder and their staff.

(m) The Government of Sindh should abolish ‘Sales Tax on Services imposed on builders and developers in provincial Budget for 2011-12 as builders and developers are not service providers and they have been wrongly included in this category. Additionally, the builders and developers already pay taxes which add up to 7%. These taxes include stamp duty, registration fee, CVT etc. Any addition to these dues will make property expensive and out of reach of the common man.

16.2.13 Transport and logistics

(a) The government should make proper investments in the transport infrastructure to allow goods and services to be delivered on time and to make traveling convenient and time saving.

(b) Indus River System should be developed as a way for transporting goods from Karachi to rest of country.

(c) Short-term investments in improving existing roads and railways infrastructure need to be initiated. In long-term, new roads and railway tracks should be built in both urban and rural areas.

(d) Pakistan needs more traffic lights since in many parts of Pakistan there are no lights except in the major cities, which is a hindrance for drivers at night.

(e) The government must ensure a strong and safe transport and traffic system of Pakistan to allow the country to have a smooth journey towards socio-economic development.

(f) The government should encourage the business community to come forward and take initiative to improve the air, sea, rail and road logistics and supply chain system in the country. For this purpose, the government should announce some kind of incentives and tax concession as well.
(g) The government should make legislation to regulate carriage of goods through air, sea, rail and road routes within and outside the country. This would help put in place a regulatory mechanism for transport logistics and supply chain in the country.

(h) The government should establish a proper cargo complex to house costly export goods including leather, textile, surgical and sports goods as well as livestock.

16.2.14 Banking

(a) The government should advise all banks, through the SBP, to introduce fee-based products and tap Small and Medium Enterprises (SMEs), and the huge undocumented economy, where all the transactions are ‘cash-based’ with no place for banking.

(b) Banks should play a role in the economic growth of the country, and not as a source of financing government activities. The government should take a policy decision to make the banks perform ‘prudent banking,” by restraining themselves from investing in government papers. Presently, almost half of banks’ deposits are invested in Treasury-Bills. To discourage this present practice, the government may consider levy of higher tax on income derived by banks from investment in T-bills.

(c) Banking sector needs to be encouraged especially with the help of consolidation. Pakistan needs at least 5 big investment banks to support capital markets development and economic growth.

(d) Banks should play an instrument role in mobilizing domestics’ savings which are critical to increase the overall investment levels.

(e) SBP needs to ensure prudential regulations are in line with the need of the economy. SBP can play a critical role in promoting venture capital for greater entrepreneurialism especially in SME sector.

(f) The SBP should decide about a mechanism in rules whereby banks may verify the actual nature of remittance and no duty is
deducted except in cases where remittance is in the nature of royalty/technical or franchise fee.

(g) The SBP should reduce the high markup rates to bring down the cost of doing business.

(h) Banks should provide finance to SMEs in simple and soft terms with simplified documentation process to encourage expansion of small business sector.

(i) Rates of Return/Profits on Deposits should match the current rate of inflation. The financing rates may be revised and should be equal to Export Refinance rates.

(j) The banks should improve their online services to save time of consumers. Banks should upgrade their systems and invest in infrastructures and hardware/software. ATMs installed in banks branches should be constantly checked by banks to keep them workable 24 hours a day.

(k) There should be no Minimum balance limit/condition for maintaining any kind of bank account to encourage the documentary economy. Cheques Books should be available free of cost.

(l) Cash withdrawal limit exemption to be enhanced to Rs.100,000/- in one day under section 231/a.

16.2.15 Insurance

(a) There is much potential and prospects for insurance growth in rural areas. The insurance companies should devise an aggressive marketing strategy to explore the untapped market.

(b) The Securities and Exchange Commission of Pakistan should issue more licenses to non-life insurance companies to expand health and other general insurance business. After 2009, the SECP has granted license in 2013 to Sahara Insurance Co. Ltd. (SLIC), a wholly owned subsidiary of Employees Old-age Benefits Institution
(EOBI) allowing it to conduct non-life insurance business in the country.

(c) The government and the Insurance Association / Institute should make a collective action plan to improve the insurance penetration and density figures that is one of the lowest in region.

(d) The conventional insurance companies should not be granted permission to operate Takaful Operations, which will destroy the true essence of takaful business and also affect the business of Takaful companies, which is basically their domain.

(e) The general insurance companies should upgrade their operating platform by exploring other untapped avenues and reducing their reliance on the banking sector as a tool to mitigate risks associated with the credit exposures.

(f) The non-life insurance companies must comply strictly with the law to ensure that their insurance agents have completed foundation course from Pakistan Insurance Institute within three years. The agents working in life insurance companies are required to complete a three-month-long foundation course to be organized by the relevant insurance company.