



# Charting the Course of Doing Business Reforms in Pakistan with Lessons from Top Global Performers

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## Introduction

The instrumental role of the government in providing regulatory environment to foster investments in business activities cannot be overstated. For sustainable economic growth in a country, it is imperative that the local and foreign businesses are provided sufficient institutional support to flourish. For businesses to thrive, the entire process of opening a business, getting a location, accessing finance, day-to-day operations and secure business environment needs to be adequately structured. Although the overall macro-economic environment and various exogenous factors play a contributing role in determining economic and business activities, the regulatory framework of a country needs to be tailored to address the needs of the business community. A business-friendly ecosystem can only be created if the government strives to provide end-to-end solutions to any constraints or potential problems that may be encountered by businesses. The 'systems' approach entails robust mechanisms that are dynamic enough to cater to the business community in a country. This report will focus on the Doing Business Reforms in Pakistan, particularly in Sindh, juxtaposed with the top performing countries in terms of ease of doing business index. The lessons drawn from globally recognized practices can help Pakistan in developing innovative solutions for catalyzing business growth across sectors.

## Background

Before delving into the indicators used to determine the Doing Business rankings, it is necessary to briefly review its beginnings. The development of doing business index can be traced back to Joseph Stiglitz's stint as the Chief Economist of the World Bank in the early 2000s. The overarching objective of the initial research was grounded in determining the role of institutions in the development. World Bank Economist, Simeon Danjov, teamed up with professors Andrei Shleifer and Oliver Hart to formulate six doing business indicators for 133 countries in 2003. Djankov has documented the origin of the Doing Business Index in his report titled ['The Doing Business Project: How it Started'](#). The indicators included the procedures, time and costs associated with starting a business, enforcing contracts, getting credit and closing a business at that time. With time, the number of broad indicators has expanded to 12 reform areas as reflected in the latest [Doing Business 2020 Report](#). These include starting a business, employing workers, dealing with construction permits, getting electricity, registering

property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and contracting with the government. The obvious strength of Doing Business Index is the benchmarking the business regulations for comparability across countries. Standardization of indicators maybe helpful for scoring the business regulatory performance of countries, but the universality of these indicators might be predicated on one-size-fits all assumptions. Nonetheless, the utility of ease of doing business rankings help in gauging the country's overall performance relative to other economies and its own performance in preceding years. It might be argued that important determinants, like the macro-economic and socio-political variables, are not included in the index. However, with all its limitations, ease of doing business index is a useful indicator to examine how economies are faring in terms of overall regulatory environment for businesses.

The following sections of the report will focus on the recent Doing Business Reforms in Pakistan that have catapulted the country's ranking from 147 in 2018 to 108 in 2020. The case studies of a few top-performing economies will also be examined to draw lessons for Pakistan in catalyzing its progress in terms of improving overall business environment in the country.

## **Recent Reforms in Pakistan**

In Pakistan, the Doing Business rankings had regressed over time from 85 in 2009 to 148 in 2016. However, recent doing business reforms have catapulted Pakistan's ranking from 147 in 2018 to 108 in 2020. Pakistan has been termed among the top 10 doing business reformers in the world. This reflects a pro-active approach by the government to create a sound regulatory environment for businesses in the country. Pakistan's performance improved considerably during 2019-20 in the six reform areas of starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. Doing business rankings are a composite index of two largest cities in a country, which are Karachi and Lahore in Pakistan. In the overall ranking for the country, Karachi is given a weightage of 65% while Lahore is given a weightage of 35%. This essentially means that the persistence of concerted efforts of the Federal, Punjab and Sindh Government can yield amplified benefits in terms of further improving the doing business rankings. In a recent [press release](#) by the World Bank, the following reforms within Pakistan were lauded as contributing factors in jumping 28 places in the recent 2020 report:

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

**Dealing with Construction Permits:** Pakistan (Karachi) made obtaining a construction permit easier and faster by streamlining the approval process and also made construction safer by ensuring that building quality inspections take place regularly. Pakistan (Lahore) also made obtaining a construction permit easier and faster by streamlining the approval process and by improving the operational efficiency of its one-stop shop for construction permitting.

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

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

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

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

As mentioned earlier, the dimensions of procedure, time and cost associated with each indicator and sub-indicator affect the ranking significantly. The common threads shared by top performers and reformers mentioned in the [Doing Business Brief](#) include “widespread use of electronic systems like online business incorporation processes, electronic tax-filing platforms, online procedures of

property transfers & construction permits coupled with sound business regulations and a high degree of transparency.”

A pivotal shift in Pakistan is the utilization of information and communications technology (ICT) for simplification of procedures and reduction of time taken across several indicators. [Punjab Information Technology Board](#) (PITB) launched an integrated [business registration portal in Punjab](#) in 2018 and replicated the same [portal for Sindh](#) in 2019. This effectively means that businesses can register with social security, labor and industries department with a click of a button in Pakistan. Government of Sindh recently waived the labor registration fee to ensure hassle-free online registration of businesses through the portal.

From 2018-19, some notable reforms documented in the [Pakistan’s Doing Business Reform Journey](#) are as follow:

**“Protection Minority Investors:** Pakistan increased minority investor protections by making it easier to sue directors in case of prejudicial transactions with interested parties. This reform applies to both Karachi and Lahore.

**Resolving Insolvency:** Pakistan made resolving insolvency easier by introducing the reorganization procedure and improving the continuation of the debtor’s business during insolvency proceedings. This change applies to both Karachi and Lahore.

**Registering Property:** Pakistan (Lahore) made registering property easier by streamlining and automating administrative procedures, and by increasing the transparency of its land administration system. Pakistan (Karachi) made registering property easier by increasing the transparency of the land registry.

**Starting a Business:** Pakistan made starting a business easier by enhancing the online one-stop registration system, replacing several forms for incorporation with a single application and establishing information exchange between the registry and the tax authority. This change applies to both Karachi and Lahore.”

Pakistan’s doing business reform journey should continue on the current trajectory to improve the regulatory environment for businesses to thrive and contribute to the country’s economic growth. A blend of institutional support, technological innovations and multi-sectoral collaboration can bring Pakistan in the limelight as the top 25 doing business performs in the world. A robust system with feedback loop can result in real-time monitoring, evaluation and course correction of the procedures. From a purely economic standpoint, the investments made today in improving the business eco-system will yield enormous socio-economic benefits. In the next section, the report focuses on the recent (post-2020) Doing Business Reforms in Karachi (Sindh).

## Recent Reforms in Karachi (Sindh)

With the launch of Sindh Business Registration Portal in February 2019, the Government of Sindh has undertaken a series of reforms to further improve the doing business rankings. Furthermore, a dedicated Doing Business Reforms Implementation Unit (DBRIU), housed in the Investment Department, has been operationalized for the execution of doing business reforms. Some of the [notable initiatives](#) which may be reflected in the Doing Business 2021 Report are mentioned below:

“In **Dealing with Construction Permits**, the number of procedures to obtain construction permits has reduced from 15 to 7. Sindh Building Control Authority (SBCA) has reduced the time to grant construction permits from 60 to 30 days, time for completion certificates from 45 to 30 days and has exempted three No-Objection Certificates (NOCs). Unscheduled inspection have also been reduced considerably.

In terms of **Registering Property**, the overall time required to register property in Karachi has been reduced from 208 days to just 17 days. Board of Revenue (BoR) has eliminated two procedures in registering property; reducing the number of procedures from eight to six. The cost has also been reduced from PKR 360,058 to PKR 342,058. Karachi Water & Sewerage Board (KW&SB) has abolished the requirement of PT-1 form to reduce the process of NOC issuance. The application form for commercial connection has also been reduced from 18 pages to 2 pages.

In terms of **Starting a Business**, the summary of labor fee registration fee waiver has been approved by Sindh Cabinet which will reduce the cost, time and procedures for business registration in Karachi. Similarly, Sindh Employees Social Security Institutions (SESSI) has completed the online registration process to operationalize the e-payment of employers’ contributions. “

With Pakistan making considerable headway in terms of Doing Business rankings, it is recommended that laudable initiatives to bolster businesses around the world are also considered and studies to implement similar initiatives in Pakistan’s context. The next section will examine thematic case studies to draw potentially imitable practices. These practices can serve as benchmarks for Pakistan to emulate the most suited models.

# Global Examples

**The role of training in facilitating entrepreneurship and property rights:** Even though capacity building is the cornerstone of initiating and sustaining reforms, the World Bank team has found that in economies surveyed for Doing Business 2019 report and [case studies](#) “only 24% of the economies measured for this case study legally require professional training for business registry officers.” In terms of the effectiveness of mandatory trainings the team found that “mandatory training for business registry officers is associated with higher business registry efficiency while annual training for land registry officers is also associated with higher land registry efficiency.” This warrants a need for comprehensive capacity building programs to be mandated for officers who are at the service delivery front to catalyze the doing business reforms that are pushed at executive level to improve the rankings.

**Enforcing Contracts and Resolving Insolvency Training and efficiency in the judicial system:** When discussing the reforms across all indicators that are being pursued proactively, the importance of enforcing contracts cannot be overstated. Judiciary can play an instrumental role in Pakistan to improve contracts enforcement in commercial cases vis-à-vis dedicated commercial courts and effective alternative dispute resolution mechanisms. In the economies surveyed for Doing Business 2019 report, the team found that “only 101 of the 190 economies measured by Doing Business have a specialized commercial jurisdiction in place; only 31 have a specialized court handling insolvency cases.” It is worth reiterating that capacity building initiatives would be the cornerstone of introducing and sustaining meaningful reforms for the contracts enforcement indicator. The Doing Business team found a strong association between training and implementation of contracts enforcement reforms. “Training formed a central part of the United Arab Emirates’ strategy to modernize its judiciary and has been instrumental in the successful creation of specialized commercial courts, the introduction of electronic case management systems and the implementation of a new insolvency regime.” Similarly, “Institutionalized training programs for judges in Indonesia supported the successful implementation of reforms establishing small claims courts and the successful adoption of new insolvency laws, decreasing the time to resolve insolvency cases.” Operationalization of court-annexed mediation courts and dedicated commercial benches coupled with effective & transparent case management system can go a long way in improving contracts enforcement score in Pakistan.

**Paying taxes: Transitioning from manual to electronic filing and payment:** In terms of paying taxes, Pakistan’s ranking is quite low at 161 and needs measure improvements. The most important potential areas of improvement include the number of tax payments per year and the post-filing index which comprises of VAT and corporate income tax refunds & audits. Even though the Federal Board of Revenue (FBR) has introduced e-filing and e-payments systems online platform, the readiness of both taxpayer and administrative staff in transitioning from paper to electronic system from end-to-end taxation process remains a challenge. According to the paying taxes case study for Doing Business 2019 report “Factors inhibiting the adoption of technology by tax administrations and taxpayers include low literacy levels, unreliable information technology (IT) infrastructure, and poor availability of suitable accounting and tax preparation software.

The case study of China in improving the paying taxes indicator can be instructive for Pakistan. According to the Doing Business case study “In Doing Business 2006, businesses in Shanghai spent 832 hours per year on average to prepare, file, and pay taxes, and they had to make 37 payments. By Doing Business 2020, these metrics have been reduced to just 138 hours per year and 7 payments.”

China has leveraged existing social media platforms for user-friendly taxpayer services. According to the case study: “In 2014 China integrated taxpayer services functions through a mobile tax application and launched official accounts on the two main Chinese social media platforms (WeChat and Weibo). In 2015, the Internet+Taxation Initiative unlocked the potential of big data for taxpayer services, such as data sharing among government bodies, online training, and e-invoices. The State Taxation Administration launched the Golden Tax III system in 2017, which facilitated e-filing of different stamp duty taxes.”

Pakistan can learn from China in introducing user-friendly taxpaying and compliance services. Punjab Information Technology Board has recently introduced an [E-Payment Gateway](#) for businesses to pay various taxes through a single click of button. Similar initiatives can be replicated in Sindh through easy-to-use ICT solutions in simplifying the tax payments and compliance procedures. The role of capacity development initiatives in this regards cannot be overstated.

## Way Forward for the Government of Sindh

From the perspective of Government of Sindh, the roadmap for Doing Business reforms action plan requires concerted efforts along the lines of institutional strengthening & capacity building, user-friendly technological solutions and multi-sectoral collaborations. The recently formulated Provincial Steering Committee and a dedicated Doing Business Reforms Implementation Unit can be instrumental in carrying out necessary reforms that result in a business-friendly environment in the province, especially Karachi.

With time, Government of Sindh can greatly benefit from an in-house Information Technology Board similar to the Punjab Information Technology Board which has helped replicated quite a few technology-driven doing business initiatives of Punjab in Sindh. Similarly, [Karachi Neighborhood Improvement Project](#) has facilitated SBCA in automation of construction permits and development of Single-Window Facility for Category-I buildings which will be extended to other categories too. World Bank assisted mega project ‘[Competitive and Livable City of Karachi](#)’ project would also extended technical and technological solutions to promote ease of doing business in Karachi. However, an in-house technology

board can roll out e-solutions in real time for Sindh-specific initiatives that will help reduce time, cost and procedures facing the businesses in the province.

It should be noted that technology is not a first-order problem when it comes to the doing business reforms. The readiness of technology usage requires mandatory trainings of the relevant officers and community at large to improve the uptake of technological reforms. If an e-Payment Gateway is introduced, the relevant government officers and the business community should be well-aware of how to use the updated systems effectively. This entails comprehensive and mandated programs with digital literacy modules to improve the readiness of adopting technological solutions.

The role of transparency and effective grievance redressal mechanisms cannot be overstated. For example, the commercial cases pending in court should be made public so that the status of any proceeding can be followed-up without any hassle. Similarly, the status/statistics of complaints resolution by relevant departments should be publicly available in real-time to show the effectiveness of grievance redressal mechanisms of different departments. Transparent practices instill confidence in businesses that any complaints are being proactively pursued for resolution by the departments. Such simple practices can yield monumental gains for the country in terms of improving the overall business environment.

In terms of enforcement of contracts, Pakistan still has a long way to go in implementing serious judicial reforms that can circumvent the longstanding litigations when it comes to commercial disputes. Although the Governments of Punjab and Sindh have made amendments in the Code of Civil Procedure 1908 to introduce the provision for alternative disputes resolution, much needs to be accomplished to expedite commercial disputes resolution mechanisms. Government of Punjab has already operationalized the mediation center and has also recently introduced a stand-alone Alternative Dispute Resolutions Act 2019 to make headway in circumventing the problems of longstanding commercial litigations. Government of Sindh should work with the judiciary to introduce court-annexed mediation centers along with dedicated commercial benches for expediting the commercial disputes resolution. Sindh Judicial Academy is well-positioned to impart quality trainings for ADR and other requisite modules that may catalyze progress in terms of the contract enforcement indicator of Doing Business.

## Conclusion

To develop a business-friendly ecosystem, there needs to be a continuous interaction between government, businesses and other relevant stakeholders to identify and address any bottleneck. From the Government's point of view, rigorous monitoring and evaluation tools with real-time data must be available for proactive corrective actions. Grievance redressal mechanisms need to be robust for expeditious complaint resolutions of the businesses. Similarly, judicial reforms are the need of the hour to operationalize mediation courts and dedicated commercial courts to resolve commercial disputes and avoid tedious litigations.

Ultimately, a dynamic system needs to be in place for ensuring that the prescriptive reforms ranging from execution of property deed, expansion of single-window facility to category II, III & IV buildings to operationalization of mediation centers and case management system are being implemented as envisioned by the key stakeholders.

Pakistan must not restrict itself to the indicators developed by the World Bank team when devising strategic plans for improving the business environment in the country. To reinvigorate economic growth, business activities and investments in the country, structural macroeconomic changes are required by Ministries of Commerce, Investment, Finance and the State Bank of Pakistan. In the digital age, Pakistan is among the top economies of the world in terms of exporting freelancing services. An extremely dynamic regulatory framework is required to foster Pakistan's young cohort of freelancers to sell their services globally that would translated into increased inflow of foreign currency (especially dollars) in our economy.

A unified macroeconomic framework is imperative to send the right signals to potential investors and businesses. Government's role must be to introduce flexible regulatory regimes that foster innovation & entrepreneurship rather than complex procedures that results in penalizing businesses and causing capital flight. Ultimately, a coherent business policy framework that is implemented in its true spirit will culminate into a vibrant eco-system of businesses in Pakistan.

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