REFORM UPDATE – *DOING BUSINESS 2018*

Country: Pakistan

Indicator:

- ☒ Starting a Business
- ☐ Dealing with Construction Permits
- ☐ Getting Electricity
- ☐ Registering Property
- ☐ Getting Credit—Legal Rights
- ☐ Getting Credit—Credit Bureaus
- ☐ Protecting Minority Investors
- ☐ Paying Taxes
- ☐ Trading across Borders
- ☐ Enforcing Contracts
- ☐ Resolving Insolvency
- ☐ Labor Market Regulation
- ☐ Selling to the Government

Description of the reform: 1. The promulgation of Companies Act, 2017, which is aimed at ease of starting and doing business. It has simplified registration and post-incorporation compliance. The Act will ease doing business in the following manner:

a. Single member and private limited companies are exempt from filing annual returns, audit of financial statements, and filing of director's report.

b. Private companies having paid up capital of one million rupees or less are exempt from the requirement to prepare consolidated financial statements.

c. Single member companies are exempted from the requirements to appoint company secretary, hold general and board meetings, as well as election of director.

d. A simple one-page memorandum, having principal line of business and prohibitory clauses, is introduced vide the First Schedule to the Act.

e. Alteration of memorandum and articles of association has been made easier.

f. Appointment of CEO is required to be notified at the time of incorporation along with directors and no additional requirement to notify it after incorporation.

g. Companies can serve documents/notices to the members, registrar and the Securities and Exchange Commission (SECP) through electronic means. Enabling provisions are provided to empower the Commission to notify mandatory service of documents by the company to members electronically.

h. Members and directors can participate in the meetings with other members and directors through video links.

i. Voting can be done through electronic means.

j. Passing of members' resolution through circulation in case of unlisted companies is allowed.

k. Companies shall be able to rectify overdue filings without any cumbersome process.

l. Concept of inactive company is introduced to provide flexibility to owners to keep the company alive with no compliance requirements during the inactive period.

m. Procedure for amalgamation and merger of companies is simplified by allowing the amalgamation of wholly owned subsidiaries in the holding company without formal approval.

n. SECP is empowered to enhance the limit of paid up capital beyond Rs.10 million for mandatory filing of audited financial statements by the private company.

2. Amendment in the Legal Advisers Act, 1974 with relaxation of requirements to appoint legal advisors for companies from Rs500,000 paid-up capital to Rs7,500,000.

3. The Limited Liability Partnership (LLP) Act, 2017, is passed. It is effective from May 2017. The introduction of LLP as a new business vehicle would act as a step towards the economy's documentation and contribute to the conversion of the informal/undocumented sector into a formal and regulated regime. The LLP Act, 2017, provides a new form of business structure to fill the gap between firms such as sole proprietors/partnerships (unlimited liability of partners) and companies governed under the Companies Act, 2017 (members enjoy the benefit of limited liability). In addition to an alternative business structure, LLP is a step towards documentation of the economy and will convert informal, unregistered and unregulated sector into formal and regulated regime. The LLP regime will provide a platform to small and medium enterprises to increase their global competitiveness. It will assist chartered accountants and lawyers to conduct their business/profession efficiently and in accordance with their respective governing statute. The simplified incorporation regime and relaxed periodic filing requirements will incentivize incorporation. The LLP would be taxed as a partnership but has the benefit of being a corporate, or more significantly, a juristic entity with limited liability.

4. A simplified User Registration system is launched under e-Services for company registration to create convenience for end users in terms of reduced time and effort. Digital signatures are now issued online by the National Institutional Facilitation Technologies which will reduce time from one day to a few minutes. The cost for obtaining these digital signatures is reduced from Rs1500 to Rs100. Fee can now be paid through credit cards and online fund transfer.

5. The Virtual One Stop Shop (VOSS) for registrations (SECP, Federal Board of Revenue and Employees Old-Age Benefits Institution) is fully operational. It registered 477 companies in March-April, 2017. The VOSS is designed to reduce the turnaround time for business start-up, facilitate investors and enhance coordination of activities amongst the regulatory authorities by enabling mutual sharing of information through a unified web portal.

6. Establishment of Incorporation and Facilitation Desks of Company Registration Offices (CROs) at Karachi, Lahore, Islamabad and Gilgit Baltistan. This has resulted in incorporation of companies the same day under SWIFT Incorporation Scheme. The CROs are also open on Saturdays from 9:00 am to 1:00 pm.

7. Companies' registration under SWIFT Incorporation Scheme would enjoy a fee waiver for name availability (Rs200 for online and Rs500 for offline mode).

8. The procedure required to reserve a company name and its company incorporation is merged into one.

9. Certified true copies of company formation documents are now free of cost. These are needed to open a company's bank account, a prerequisite for business startup, and for obtaining registration with other authorities.

10. A new fee schedule introduced for the formation of a small company with an authorized capital of up to Rs100,000, as mentioned in the Sixth Schedule of the Companies Ordinance, 1984. It is effective from May 31, 2016.

Annexures: SAB-Federal 1-6

Impact of the reform: Formalization and facilitation of investment and doing business.

Date of entry into force: May 31, 2017

Legal basis (if applicable):

*Please complete a separate form for each topic. Information on typical changes that would be reflected as reforms for *Doing Business* are included in Annex 1.

REFORM UPDATE – *DOING BUSINESS 2018*

Country: Pakistan

Indicator:

- ☐ Starting a Business
- ☐ Dealing with Construction Permits
- ☐ Getting Electricity
- ☐ Registering Property
- ☐ Getting Credit—Legal Rights
- ☐ Getting Credit—Credit Bureaus
- ☐ Protecting Minority Investors
- ☐ Paying Taxes
- ☐ Trading across Borders
- ☐ Enforcing Contracts
- ☒ Resolving Insolvency
- ☐ Labor Market Regulation
- ☐ Selling to the Government

Description of the reform: Under the Corporate Restructuring Companies (CPC) Act, 2016 a framework for the establishment, licensing of restructuring companies to take over non-performing assets of distressed corporate entities has been developed.
Annexure: RI-1

Impact of the reform: Strengthens environment for resolving insolvencies.

Date of entry into force: Decemeber 2016

Legal basis (if applicable): CPC Act, 2016

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REFORM UPDATE – *DOING BUSINESS 2018*

Country: Pakistan

Indicator:

☐ Starting a Business ☐ Dealing with Construction Permits ☐ Getting Electricity

☐ Registering Property ☐ Getting Credit—Legal Rights ☐ Getting Credit—Credit Bureaus

☒ Protecting Minority Investors ☐ Paying Taxes ☐ Trading across Borders

☐ Enforcing Contracts ☐ Resolving Insolvency ☐ Labor Market Regulation

☐ Selling to the Government

Description of the reform: Introduced subsidiary legislation under the Securities Act, 2015. A revised securities broker regime introduced by entailing categorization of brokers per strengths under different aspects. The rules/regulations finalized for establishment of a centralized investor protection fund for the settlement of investor claims.
Annexure: PMI 1-4

Impact of the reform: Increased investor protection.

Date of entry into force: May, 2017

Legal basis (if applicable):

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REFORM UPDATE – *DOING BUSINESS 2018*

Country: Pakistan (Lahore)

Indicator:

- ☐ Starting a Business
- ☐ Dealing with Construction Permits
- ☐ Getting Electricity
- ☐ Registering Property
- ☐ Getting Credit—Legal Rights
- ☐ Getting Credit—Credit Bureaus
- ☐ Protecting Minority Investors
- ☐ Paying Taxes
- ☐ Trading across Borders
- ☒ Enforcing Contracts
- ☐ Resolving Insolvency
- ☐ Labor Market Regulation
- ☐ Selling to the Government

Description of the reform: 1. The establishment and operationalization of three new mediation centers at the Sessions Court. Additionally, the mediation center at the Lahore Chamber of Commerce and Industry is strengthened.
2. Standard Operating Procedures (SOPs) for mediation centers notified and included in the Lahore High Court (LHC) bench book.
3. Automation of case management system at the LHC.
4. Draft rules for the Aalternative Dispute Resolution (ADR - building under construction) center prepared.
5. Establishment of a commercial division within district courts, Lahore. Annexures: EC Lahore 1-12

Impact of the reform: The ADR reforms are expected to reduce case burden on the courts and will also improve the time taken to resolve commercial disputes without lengthy litigation. Automation of case management will improve the quality of judicial process index by reducing procedures and time required to resolve a commercial dispute. The establishment of a commercial division will reduce time to resolve commercial disputes and will also promote an efficient contract enforcement regime.

Date of entry into force: May, 2017

Legal basis (if applicable): Section 89 and Section 10A for the Civil Procedure Code 1908 allow for disputes to be resolved via ADR/mediation. The LHC Rules of Governance and SOPs also allow for alternative dispute resolution to take place.

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REFORM UPDATE – *DOING BUSINESS 2018*

Country: Pakistan (Lahore)

Indicator:

- ☐ Starting a Business
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- ☐ Getting Credit—Credit Bureaus
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- ☐ Labor Market Regulation
- ☐ Selling to the Government

Description of the reform: 1. Automation of Construction Permits (CP) processes at Lahore Development Authority (LDA).

2. Integration of public facilitation counters for industrial and commercial building permits.
3. Checklists and flowcharts of construction permitting processes, including cost and time, available on the Local Government and Community Development/Lahore Metropolitan Corporation (LGCD/LMC) and Lahore Development Authority (LDA) websites. Online: https://www.lda.gop.pk/downloads.php and https://www.lda.gop.pk/images/building_regulations_summary.pdf
4. Permit issuance statistics, including time have been made available online. Please see link https://www.lda.gop.pk/
5. Application tracking data available on LDA website. Application tracking have also been available online along with guidelines for complexity categorization.
6. Guidelines for complexity categorization on LDA website.
7. Forms A & B available on the LDA website.
8. Environment Protection Agency (EPA) has de-notified the requirement for obtaining NOC to construct non-hazardous and non-toxic DB case study type warehouses. Notification has been issued. This has resulted in a reduction of 90 days for obtaining such construction permits.
9. Establishment of Water and Sanitation Agency (WASA), Traffic Engineering & Transport Planning Agency (TEPA), Town Planning Wing (TWP) and Chief Metropolitan Planner (CMP) counters at one window facility of LDA.

Annexures: CP-Lahore 1-16

Impact of the reform: Improved transparency; simplification and streamlining of the process for obtaining construction permits, and reduction in time and cost to obtain building permits.

Date of entry into force: April-May, 2017

Legal basis (if applicable): LDA By-Laws

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Annex: Typical changes that would be reflected as reforms for *Doing Business* (non-exhaustive list)

Starting a Business

Reforms affecting this indicator include any changes in laws, regulations, fees, or practice that have an impact on the process for starting up a domestic limited liability company—whether on the time, cost, or procedures required. A reform is counted, for example, if some procedures are eliminated, if costs decrease, or if registration time decreases. Any legal changes affecting the minimum capital requirement also are considered reforms. In addition, the introduction and use of online platforms in the company incorporation processes is considered a reform if these online systems are widely used.

Dealing with Construction Permits

Reforms affecting this indicator include any changes in laws, regulations, fees, or practice that have an impact on the process for building a warehouse used for the storage of books or on the index assessing the quality control and safety mechanisms of the construction permitting system. Reforms may include (i) legal changes (such as introducing a new building code or new statutory time limits that are applied in practice, introducing liability mechanisms applying in cases of structural defaults in construction, or clearly specifying the requirements to obtain a building permit in the legislation); (ii) administrative reforms (such as completing a reorganization, establishing fast-track services or a one-stop shop, streamlining the approvals process, implementing online submission of applications, making building regulations publicly accessible, or introducing professional certifications for supervising engineers or for experts who approve building plans); (iii) fee reductions (such as decreasing building permit fees, lowering building registration fees, or eliminating inspection fees); (iv) changes in documentation requirements (such as requiring less documentation or standardizing forms); (v) a new inspections regime (such as the introduction of private inspectors, a cap on inspections, or a risk-based system); or (vi) the privatization of services usually handled by public authorities (such as surveying, inspections, or design approval).

Getting Electricity

Reforms affecting this indicator include any changes in laws, regulations, fees, or practice that have an impact on the process for obtaining a first-time electricity connection from a warehouse to the main grid as well as any changes affecting the reliability of electricity supply and transparency of tariffs index. These may include streamlining procedures (such as reducing interaction between the entrepreneur and other public agencies—for example, for excavation permits); eliminating redundant inspections of external connection works by multiple agencies; changing procedures related to fire safety concerns (such as reducing the number of duplicate internal wiring inspections from multiple agencies by regulating the electrical profession rather than the connection process); or calculation of the SAIDI and SAIFI indexes by utility, introduction of automatic systems for outage monitoring and restoration at the utility, introduction of financial deterrents on utility for excessive outages, improving the transparency of electricity tariffs. Other examples include tightening legal time limits; increasing human resources; streamlining internal processes at the utility; and reducing time requirements by improving the procurement of materials or outsourcing external connection works when resources are constrained. Reforms relating to costs include changes in the cost of fees related to new commercial electricity connections (such as application fees, inspection fees, or excavation fees); in the cost of security deposits (as well as the possibility of paying security deposits through a bond or bank guarantee); and in the cost of connection (such as introducing a fixed connection fee, reducing connection costs, or allowing customers to pay connection costs in installments along with consumption charges).

Registering Property

Reforms affecting this indicator include any changes in laws, regulations, fees, or practice that have an impact on the transfer of a land parcel with a building from one party to another. These can include optimizing business processes, combining or eliminating procedures, or introducing new systems that allow certain procedures to be moved to the back office. Connecting or merging several agencies can achieve similar results by eliminating inconsistencies and the duplication of efforts. Reforms can also include simplifying processes in ways that reduce the time for handling information and speed up service delivery. Introducing time limits and reducing fees can also have an impact on the data. Other examples include introducing online services, digitizing procedures (for example, digitizing all internal records and archives or introducing geographic information systems), improving the transparency of land registration processes (such as by making fee schedules, documents, or statistics publicly available or introducing complaint mechanisms), and expanding the geographic coverage of the land registry and mapping agency. Changes in the legal framework for resolving land disputes may also be considered reforms. Lastly, legal changes that impact the equality in women's ability to manage, control, administer, access, encumber, receive, dispose of and transfer property in relation to men will also qualify as a reform.

Getting Credit—Legal Rights

Reforms affecting this indicator include the adoption of new legislation or changes to existing legislation covering the use of movable property as collateral. Changes to laws affecting secured creditors' rights in or outside bankruptcy procedures may also affect the data, as can the implementation of a collateral registry. A reform must be completed (law passed and implemented) to be counted.

Getting Credit—Credit Information

Reforms affecting this indicator include the adoption of major new laws governing credit reporting (such as a special credit bureau law, data protection law, or consumer protection law) or the establishment of a credit bureau or registry for the first time in the economy. A reform is also recorded if an existing credit bureau or registry starts to (i) distribute data on both firms and individuals; (ii) distribute both positive and negative data; (iii) distribute data from retailers or utilities; (iv) distribute 2–10 years of historical data; (v) distribute data on loans of less than 1% of income per capita; (vi) guarantee by law the right of borrowers to inspect their data, with bureau or registry fees of no more than 1% of income per capita; or (viii) provide credit scores based on the bureau's or registry's data as an additional service.

Protecting Minority Investors

Five types of regulatory reforms affect this indicator: (i) reforms to the approval process for transactions by business corporations with interested parties; (ii) reforms to the disclosure requirements for transactions with interested parties; (iii) reforms to standards of duty and liability applicable to directors of corporations; (iv) reforms to the rules of civil procedure relating to prelitigation investigation, compelling evidence in court, and questioning witnesses and opposing parties in court; and (v) more generally, reforms to the regulations governing the internal affairs of companies in connection with control, ownership, transparency, and shareholder rights. A reform must be completed (law passed and implemented) to be counted.

Paying Taxes

Reforms affecting this indicator include a reduction in the statutory corporate income tax rate; a reduction in the statutory rates of labor taxes and mandatory contributions; or a reduction in tax compliance time. Reforms may also include the introduction of electronic filing and payment (if used by the majority of businesses of a size similar to the case study company); a major revision of tax laws; the elimination of a tax; a reduction in the number of tax payments; or the replacement of cascading sales tax by value added tax. In *Doing Business 2017* report, the indicator set of Paying Taxes was expanded to include a new component (the postfiling index) capturing the compliance burden for businesses and the efficiency of dealing with two postfiling procedures: VAT refund and corporate income tax audit. Reforms may also include initiatives that lead to a reduction in compliance time for claiming a VAT cash refund; a reduction in compliance time for responding to a tax audit; a reduction in the waiting time to obtain a cash VAT refund and a reduction in the waiting time to complete an audit.

Trading across Borders

Reforms affecting this indicator include any changes in laws, regulations, physical infrastructure, fees, or practice that have an impact on the time and/or cost to export a shipment of a product in which the economy has a comparative advantage or to import a shipment of containerized auto parts. These could relate to the following areas: introduction of electronic systems that substantially improve work and coordination among different trade participants; implementation of risk-based inspections; introduction of single windows; streamlining of customs clearance and inspection procedures, including advance clearance; introduction or improvement of electronic systems for document submission.

Enforcing Contracts

Reforms affecting this indicator include those having an impact on the time or cost of judicial commercial disputes. They can include amendments to civil procedural rules, changes in the rules determining jurisdiction, the appointment of new judges, or a reorganization of the judicial system. Reforms may also include the implementation of electronic filing, amendments to the case management system, the implementation of mediation, substantial changes in arbitration law, or the creation of a new commercial court.

Resolving Insolvency

Reforms affecting this indicator include any changes in laws, regulations, fees, or practice that have an impact on the time or cost of insolvency proceedings or on the likelihood of preserving a debtor's company as a going concern. These may include reforms affecting the legal framework (such as new bankruptcy laws), the regulatory framework (such as rules governing the licensing of insolvency administrators), or the administrative framework (such as a new bankruptcy court). In addition, the indicator covers reforms in four areas: (i) those affecting the commencement of insolvency proceedings; (ii) those affecting how the assets of debtors are managed during insolvency proceedings; (iii) those in the area of reorganization;, and (iv) those affecting the participation of creditors in insolvency. A reform must be completed (law passed and implemented) to be counted.

Labor Market Regulation

Reforms affecting this indicator include those that have an impact on the hiring and redundancy of workers and the eligibility of workers for various benefits. Examples include a significant amendment to the labor code (or any other relevant labor regulation) and implementation of specific measures such as changes in the maximum legal duration of fixed-term contracts or in the severance payments or notice periods required in case of the dismissal of a worker, introduction of unemployment insurance and laws that mandate gender nondiscrimination in hiring and equal remuneration for work of equal value in line with the ILO standards. Other reforms that may be considered include those relating to the resolution of labor disputes, to labor inspection systems, or to the eligibility of workers for different benefits (health insurance, sick leave, unemployment benefits, maternity leave, and retirement pensions). A reform must be completed (law passed and implemented) to be counted.

Selling to the Government

Reforms that may affect this indicator include all legal changes to the public procurement process, including those pertaining to terms of reference, call for tenders, bid submission, bid evaluation, bid award, guarantees, execution, amendments to the procurement contract, payment, remedies and complaint mechanisms.