

## Chapter IV

# Regulatory Framework for Investment in Pakistan



*Pakistan's investment policy has been formulated to create an investor-friendly environment with a focus on further opening up the economy and marketing the potential for direct foreign investment. Various incentives have been offered to attract foreign investment including full repatriation of capital, capital gains, dividends and profits. Furthermore, according to various economic commentators, Pakistan has the most liberal investment policy regimes and public-private partnership frameworks in the entire South Asian region.*

### Legal protection to investment

Foreign investment in Pakistan is fully protected by following Acts:

- Foreign Private Investment (Promotion & Protection) Act, 1976.
- Protection of Economic Reforms Act, 1992.

### Investment policies

In order to protect and stimulate investment (both local & foreign) in Pakistan, specific investment policies and procedures have been designed for individual sectors. Investment policies specific to the major sectors operating in the country are summarized below whereas policies in general are given in the table at the end of this chapter:

#### Agriculture

Salient features for Corporate Agriculture Farming (CAF):

- Only such companies (foreign and local) will be entitled to CAF that are incorporated in Pakistan under the Companies Ordinance, 1984.
- State land can be purchased or leased for 50 years through open auction, extendable for another 49 years.
- All banks and financial institutions will earmark separate credit share for CAF.
- Exemption of duty for transfer of land for CAF.
- Dividends from CAF are not subject to tax.
- Raw material for manufacture of agricultural pesticides can be generally imported at zero-percent rate of customs duty.
- Plant & machinery, equipment and vehicles meant for agriculture, harvesting, dairy, livestock, poultry, agro-based industries, horticulture and floriculture, etc. under SRO 575(I)/2006 can be imported at zero-percent rate of customs duty.



## Construction & Housing

### *National Housing Policy – 2001*

- Housing and construction companies shall be charged via Presumptive Tax Regime which shall not exceed 1% on yearly receipts.
- Stamp duty / registration fee, for the housing mortgage has been rationalized.
- All new construction of houses on plots measuring up to 150 sq. yards and flats having an area of 1,000 sq. feet, have been exempted from all types of taxes for a period of 5 years.
- Banks and DFIs shall extend credit facilities for balancing, modernization and replacement (BMR) of machinery used for housing and construction industry.
- Import of plant and machinery and spares by the housing and construction companies, not manufactured locally, shall be exempted from custom and import duties in excess of 10%.

## Textile

### *Textile Policy 2009-14*

- Textiles Investment Support Fund (TISF) will be established under the ambit of the policy.
- Measures proposed for financing from the TISF include;
  - export refinance available at 5%.
  - long term loans will be converted on the pricing applicable to LTTF scheme, together with a grace period of one year on both existing and converted facilities, without the facility of refinancing.
  - to settle the past claims under R&D scheme of 2007-08, allocation of PKR5.4 billion for the purpose by GoP.
- GoP will contribute part of the investment financing or part of the investment cost through the Technology Up-gradation Fund.
- The policy will focus on certain sub-sector issues from fibre to garments including ginning, spinning, weaving, knitting, processing, fashion designs, handloom and handicrafts, carpets, technical textiles etc.
- The policy offers duty drawbacks of between 1% and 3% for a two-year period for value-added textile exports.
- All textile machinery imports will be zero-rated to encourage new investments. Import duty on raw material, sub components and components used in local manufacturing of textile plants and machinery, has been reduced to zero percent.



## Financial Services

- SBP allows complete freedom of investment and repatriation of profits / dividends / disinvestment proceeds to the foreign investors in line with the overall investment policy.
- As per the Foreign Exchange Regulations, any foreign investor can invest in shares / securities listed on Stock Exchanges in Pakistan, and can repatriate profits / dividends or disinvestment proceeds. The investor has to open a Special Convertible Rupee Account with any bank in Pakistan, in order to make such portfolio investments.

## IT & Telecom Sector

- Specific licenses are required from respective authorities e.g. in order to start the cellular operation network, a license needs to be obtained from Pakistan Telecommunication Authority.

## Energy (Power, Oil & Gas)

- The energy industry is regulated by the Policy for Power Generation Projects 2002, Policy for Development of Renewable Energy for Power Generation 2006 and Petroleum Exploration & Production Policy 2009.
- Customs duty at the rate of 5% applicable on import of plant, machinery & equipment not manufactured locally for power generation projects whilst zero-percent customs duty applies on plant, machinery and spares imported by power generation projects under nuclear and renewable energy sources like solar, wind, micro-hydel bio-energy, ocean, waste-to-energy, hydrogen cell etc.
- For power projects above 50MW one-window support to be provided at the federal level. For projects below or up to 50MW support to be provided at the respective provincial level.
- Royalty will be payable at the rate of 12.5% of the value of petroleum at the field gate.
- Local petroleum companies are encouraged to establish joint ventures with foreign concerns.
- Import of equipment related to the petroleum & refining sectors allowed on concessionary rates.
- The lube industry has been deregulated.

## Policy package

Policy parameters	Manufacturing Sector	Non-manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services
Government permission	Not required except for specific industries <sup>[1]</sup>	Not required except specific licenses from concerned agencies		
Remittance of capital, profits, dividends etc.	Allowed	Allowed	Allowed	Allowed
Upper limit of foreign equity allowed	100%	60%	100%	100%
Minimum investment in service sector (USD in million)	N/A	0.3	0.3	0.15
Custom duty on import of plant, machinery & equipment	5%	0%	5%	0-5%
Tax relief  (Initial depreciation allowance, % of plant, machinery & equipment cost)  <ul style="list-style-type: none"> <li>● General</li> <li>● If set-up in an underdeveloped area</li> </ul>	<ul style="list-style-type: none"> <li>● 50%</li> <li>● 90%</li> </ul>	<ul style="list-style-type: none"> <li>● 50%</li> <li>● 90%</li> </ul>		
Royalty & technical fee	No restriction on payment	Allowed as per guidelines  Initial lump-sum up to USD100,000		

Note [1]: Specified Industries are  
 Arms and ammunition  
 High explosives  
 Radioactive substance  
 Security printing, currency and mint

Source: Board of Investment website – [www.pakboi.gov.pk](http://www.pakboi.gov.pk)  
 Income Tax Ordinance, 2001



## Banking

The SBP, the Central Bank of the country was established in 1948. In addition to monitoring the implementation of Banking Companies Ordinance 1962, it specifies regulations relating to the monetary system, credit and banking policy and supervises their implementation.

The main law governing in banking companies in Pakistan is the Banking Companies Ordinance, 1962 that regulates and governs the establishment and running of banking companies in Pakistan, in addition to business of commercial banking.

### Some important regulations governing the banking companies in Pakistan

The Banking Companies Ordinance, 1962 and State Bank of Pakistan Act, 1956 specify various regulations, some of which are specified below:

- Capital and reserve requirement
- Cash reserve
- Liquid assets
- Assets outside Pakistan
- Annual accounts and audit
- Remittance of profits
- Number of branches.

### Prudential regulations

The SBP has introduced specific Prudential Regulations for Corporate/Commercial Banks, Small and Medium Enterprises Financing, Consumer Financing, Micro Finance Banks/Institutions and Agriculture Financing.

The Prudential Regulations cover four categories viz. Risk Management, Corporate Governance, KYC and Anti Money Laundering, and Operations. Following are the important conditions prescribed in these prudential regulations for Corporate/Commercial Banks:

- Limit on exposure to a single person
- Limit on exposure against contingent liabilities



- Minimum conditions for taking exposure
- Limit on exposure against unsecured financing facilities
- Linkages between financial indicators of the borrower and total exposure from financial institutions
- Exposure against shares / TFCs and acquisition of shares
- Classification and provisioning for assets
- Payment of dividend
- Margin requirements
- Corporate governance / board of Directors & management
- Credit rating
- Know your customer (KYC)
- Anti-money laundering measures
- Window dressing.