

PAKISTAN – Country Profile, Doing Business 2005

(Summarized by Eric Manes)

Doing business indicators for Pakistan show better than average and improving indicators for entry regulations, disclosure requirements and bankruptcy procedures. However, Pakistan also recorded relatively rigid labor markets – particularly on the hiring side, average creditor and borrower rights, low coverage of credit registries and long and costly contract enforcement.

Generally, indicators are improving, but only slightly. Country wide indicators may be deceptive however, since Karachi shows better indicators than the rest of the country in terms of time to register a business the cost / time to enforce a contract and the cost to create collateral. On the other hand, it is more expensive to start a business and takes more time to register property in Karachi than in the rest of the country.

ENTRY REGULATIONS

- Pakistan *compares favorably* to most South Asian countries in terms of time and costs required to start up a business. In addition, entry has become *easier* and *less costly* in recent years
- The time requirement of 24 days to start a business is significantly less the 47 day average for South Asia, and less than the average for Malaysia (30 days) and China (41 days).
- Cost requirements (36% of GNI) are closer to the regional average (45% of GNI) and higher than the China and Malaysia which require 14% and 25% of GNI, respectively
- Between 2002 and 2004, days to start of business have come down from 54 days, followed by a reduction in the cost (from 56% to 36% between 2004 and 2005), in line with the average reduction for the South Asia region (down from 76% to 45%).
- The days required to start a business differs only slightly across 5 cities within Pakistan - ranging from 24 - 29 days, but the cost to start a business in the rest of Pakistan are significantly lower (from 17 to 30%) than the 36% of GNI to start a business in Karachi.

HIRING AND FIRING WORKERS

- Pakistan's labor market is one of the *most rigid* in South Asia, recording a composite index (49) slightly higher than all South Asian countries and somewhat higher than the South Asia average (42) .
- Within this composite index, Pakistan's rigidity stems predominately from the difficulty in hiring (78) which far exceeds other South Asian countries.
- On the firing side, though Pakistan's labor market seems highly flexible in terms of regulation (30) as compared with than India, Sri Lanka and Nepal , but the costs of firing (90 weeks) are comparable.
- Since last year, Pakistan's labor market has improved in terms of flexibility as the composite index has come down from 58 to 49, but the component covering hiring flexibility has worsened.

REGISTERING PROPERTY

- The cost and time for registering property in Pakistan is *the lowest* amongst South Asian countries, taking 49 days (as compared with an average of 56 days for the region) and costing 4.2% of the property value (compared to the 6.1% average for South Asia).
- There is little variation across cities in Pakistan in terms of the cost to register property with only Peshawar showing lower than average costs at (3.5% of property value), but the time to register ranges from 17 days in Lahore to 49 days in Karachi.

GETTING CREDIT: LEGAL RIGHTS AND CREDIT INFORMATION

- Access to credit based in Pakistan is *about the same for all countries in South Asia*. The powers of borrowers and creditors in collateral and bankruptcy laws are measured in a legal rights index. Pakistan's index is 4 out of possible 10 - compared with Malaysia's achievement of an index of 8.
- Pakistan's credit information indicators show low coverage, covering 2 borrowers per 1000 adults for public registries and 3 borrowers per 1000 adults for private registries. The low coverage characterizes all South Asian countries apart from Sri Lanka with 19 per 1000.
- The information coverage in Pakistan's credit registry is better than other countries in South Asia with a 4 out of 6 rating, as compared with 3 out of 6 for most other South Asian countries.
- Across cities in Pakistan, creating collateral costs around 22.3 % of the value of the secured property for 4 of the 5 cities. In Karachi, the cost is about half that recording in the rest of the country at 11.5%

PROTECTING INVESTORS: CORPORATE GOVERNANCE

- Laws and regulations enhancing disclosure place Pakistan's corporate governance *slightly higher* than the average for South Asia at 4 out of 7, equivalent to India, Sri Lanka and slightly higher than the 3 achieved by Bangladesh and Nepal. China is also rated at 4 and Malaysia at 5.

ENFORCING CONTRACTS

- The time to enforce a contract in Pakistan is estimated at 395 days - *above the South Asian average* of 375 days, but lower than the time required in India (425) and Sri Lanka (440). This is slightly worse than the 365 days recorded for Karachi last year, .
- However, the 395 days for Karachi and Peshawar is on the low end for the 5 cities in Pakistan. In Faisalabad it takes 735 days and in Lahore 957 days are required.
- The cost to enforce a contract (35% of GNI) is *higher than all other South Asia countries* apart from India (43%) and is higher than Malaysia (20%) and China (25%).
- Even so, even though 35% seems better than the 49% recorded for last year, Karachi is the least cost area in the country for contract enforcement. In Lahore and Peshawar contract enforcement costs 60 and 67 percent of GNI, respectively.

CLOSING A BUSINESS: BANKRUPTCY

- The time to go through insolvency is *relatively low* for Pakistan at 2.8 years – the same as last year and only slightly higher than the 2.3 years for Sri Lanka, Malaysia and China. This is compared to Bangladesh, Nepal and India which take 4, 5 and 10 years, respectively to close a business.
- The 38% recovery rate for Pakistan is *the best in the region* and surpasses the 35 percent recovery recorded for Malaysia and China.
- The cost to go through insolvency - at 4 percent of the estate - was *the lowest for the region* last year, which averaged at 9% and much lower than China and Malaysia at 18%.