Gallup Pakistan Analysis of World Bank Enterprise Survey

Regulations and Taxes – World Bank Enterprise Survey 2022

GALLUP PAKISTAN
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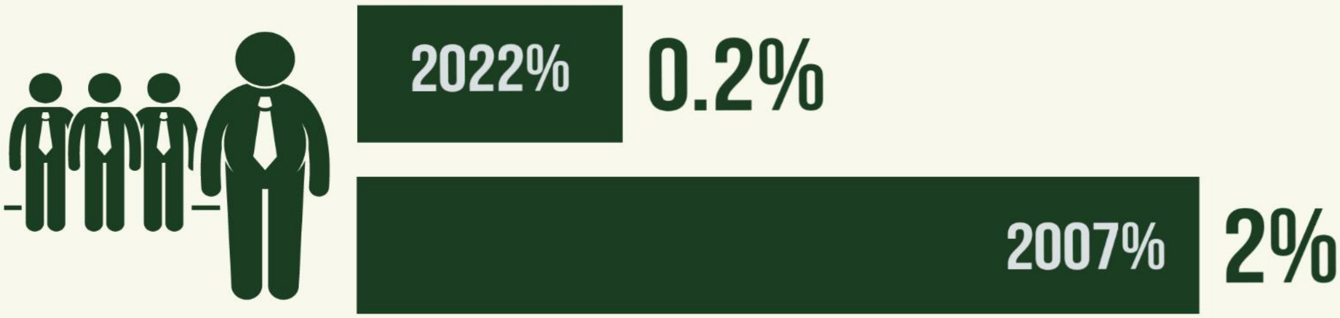
GOVERNMENT REGULATIONS AND TAX OFFICIALS:

From 2% in 2007 to 0.2% in 2022, Pakistan's senior management's time spent on government regulation has declined.



DAYS TO OBTAIN A PERMIT/LICENSE:

When compared to South Asian countries and the worldwide data, Pakistan had the lowest average number of days required to obtain an operating license at 5 days.

PERCENT OF FIRMS IDENTIFYING TAXES AND PERMITS AS CONSTRAINTS:

In 2022, approximately 36% of firms in Pakistan identified taxes and permits as a major constraint, which is significantly higher than South Asia's 24% and the world's 30%.

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

PRESS RELEASE

Gallup Pakistan Analysis of World Bank Enterprise Survey

Government regulations have decreased from 2% to 0.2%, between 2007 and 2022, yet tax and permit challenges persist for Pakistani firms
– **Regulations and Taxes – World Bank Enterprise Survey 2022**

Islamabad, August 29, 2023

Gallup Pakistan, as part of its Big Data Analysis initiative, is looking at Regulations and Taxes (2022). This data is part of a publication by the World Bank called the 'Enterprise Survey 2022'.

The complete Enterprise Survey 2022 is available HERE.

Gallup Pakistan has not conducted the survey work. We are only analyzing the publicly disclosed data and reports provided by World Bank. This is a public service activity done on individual initiative of Gallup Pakistan and not in any way endorsed or commissioned or supported by WB or its agents.

What is the Big Data Analysis Series by Gallup:

Gallup Pakistan's Big Data series was started by Bilal I Gilani, Executive Director of Gallup Pakistan. Bilal explains the rationale of the series: "The usual complaint from academics and policy makers is that Pakistan does not have data availability. At Gallup we plan to bridge this gap in terms of accessibility and use of data. The Gallup Big Data series has earlier worked with data sets such as PSLM, Labor Force Survey, and Economic Survey reports as well as National Census Reports and Election Commission Data sets. The current series is using the World Bank Enterprise Survey, a periodic compilation which reports facts and perceptions of enterprises and businesses operating in Pakistan. We hope that these series are useful, and we welcome both feedback as well as possible collaborations as we create a public good in the form of useful data sets in Pakistan.

What data points this current edition covers:

This series aims to present the important learnings from the Enterprise Survey 2022 for policy makers, the public, as well as for marketers in an easy and understandable way. In particular, this edition looks at Regulations and Taxes as of 2022. Good economic governance in areas such as regulations, business licensing, and taxation is a fundamental pillar of a favorable business environment. Registered firms pay taxes and are supposed to comply with regulations. The series' main aim is to provide data. Implications of these data points for the development sector as well as wider socio-political ramifications is something we would like to trigger in relevant circles.

Today's topic is "Regulations and Taxes (2022)"

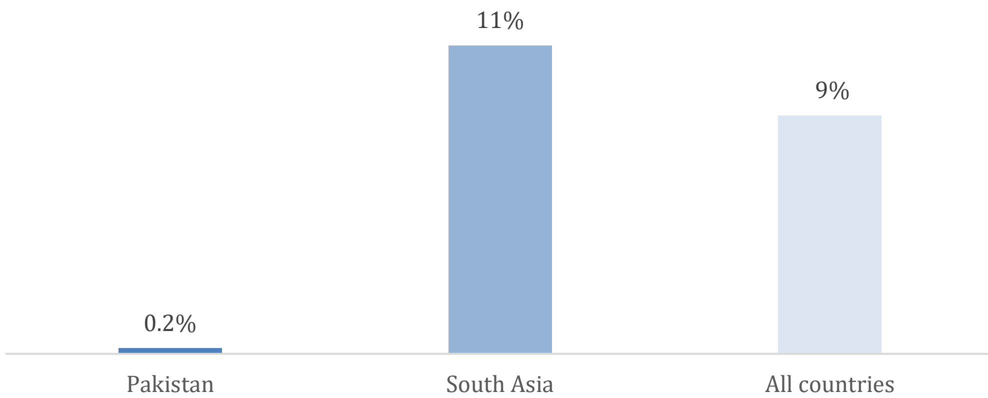
Key Findings:

1. **Government regulations and tax officials:** From 2% in 2007 to 0.2% in 2022, Pakistani firms' senior management's time spent on government regulation has declined.
2. **Days to obtain a permit/license:** When compared to South Asian countries and the worldwide data, Pakistan had the lowest average number of days required to obtain an operating license at 5 days.
3. **Percent of firms identifying taxes and permits as constraints:** In 2022, approximately 36% of firms in Pakistan identified taxes and permits as a major constraint, which is significantly higher than South Asia's 24% and the world's 30%.

1. Government regulations and tax officials

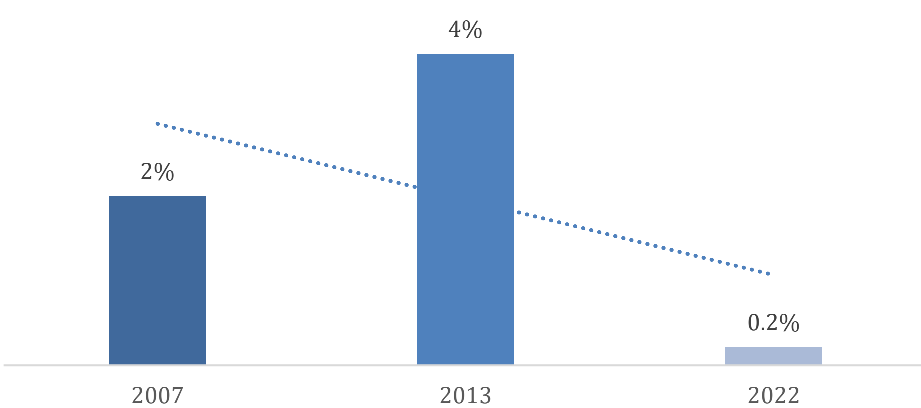
From 2% in 2007 to 0.2% in 2022, Pakistani firms' senior management's time spent on government regulation has declined.

Figure 1: Senior management time spent dealing with the requirements of government regulation (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

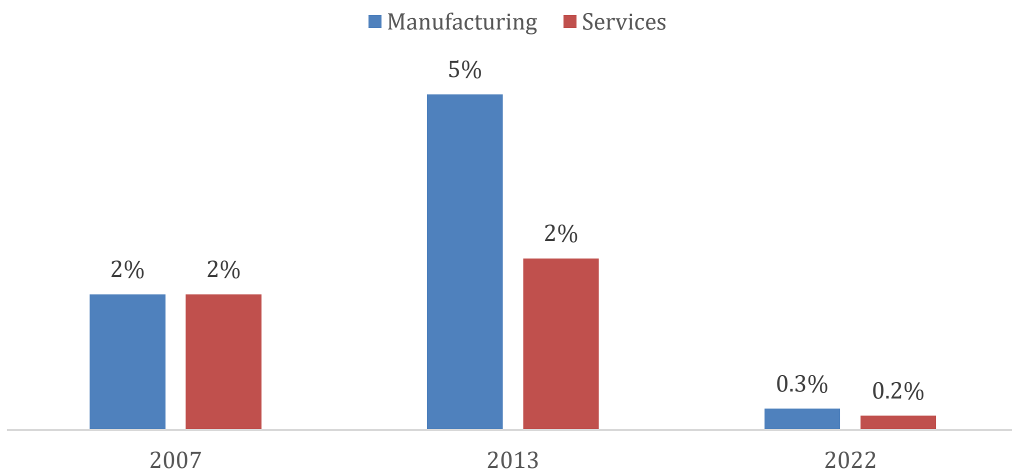
Figure 2: Senior management time spent dealing with the requirements of government regulation – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

In 2007, senior management at manufacturing and services companies spent 2% of their time on average dealing with regulations from the government. In particular, this number stayed largely constant across several manufacturing subgroups, from Food (2%) to Leather Products (1%). Notably, the subcategory for machinery, equipment, and electronics had the most time spent at 2%, highlighting how complex regulations are in this industry. Senior management time allocation had increased in both industries by 2013, reaching 4% for manufacturing and 22% for services. However, this indicator fell in 2022, falling to 0.3% for manufacturing and 0.2% for services.

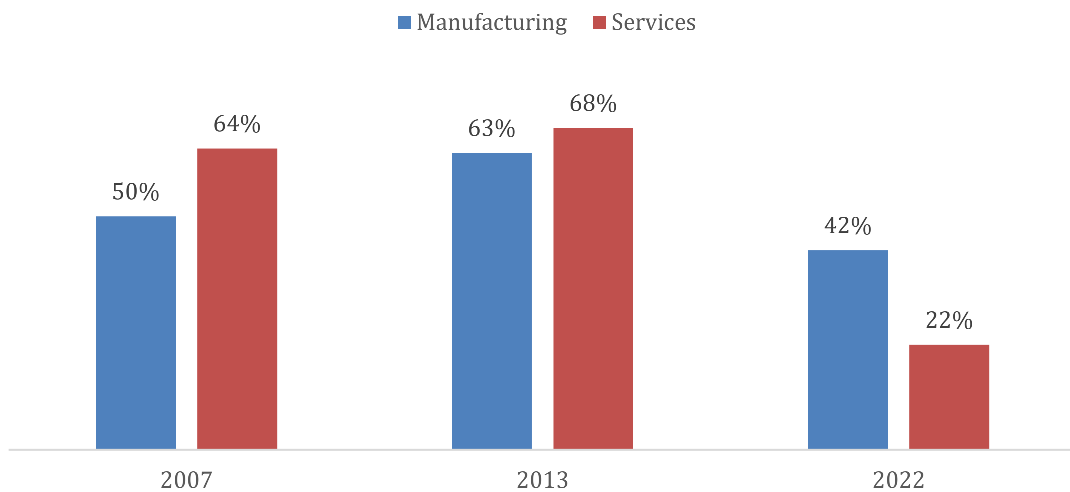
Figure 3: Senior management time spent dealing with the requirements of government regulation (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The proportion of firms visited or required to meet with tax officials reflects a dynamic interplay between regulatory compliance and enforcement efforts. Manufacturing experienced a significant 50% engagement rate with tax officials in 2007, compared to services, which experienced a slightly higher rate of 64%. The overall engagement rate by 2013 remained 63% and 68% respectively, demonstrating the persistence of regulatory requirements. However, interactions with tax authorities significantly decreased in 2022, with manufacturing and services reporting lower rates of 42% and 22%, respectively.

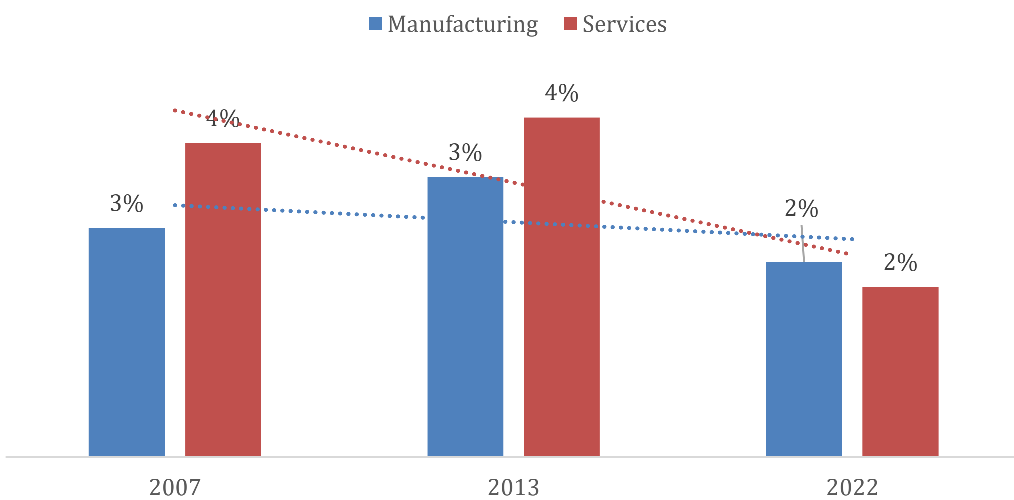
Figure 4: Percent of firms visited or required to meet with tax officials



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The typical number of visits among the companies that received tax official visits sheds light on the level of oversight from regulators. In 2007, the services industry saw an average of 4% visits compared to 3% visits for the manufacturing sector. Both industries reported same average amount of visits in 2013, with manufacturing reporting 3% visits and services reporting 4%. Surprisingly, visits fell drastically in both sectors in 2022, averaging 2% for manufacturing and 2% for services.

Figure 5: Trendline for average number of visits or required meetings with tax officials (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

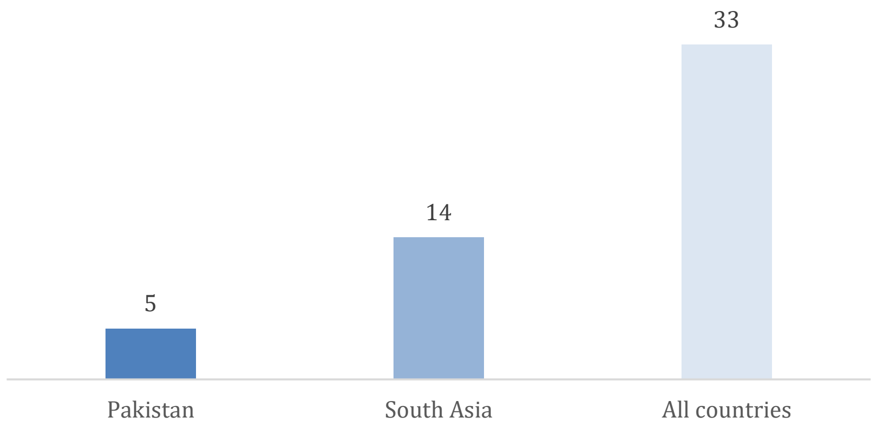
The most recent data indicates a tendency towards reduced regulatory burdens and fewer encounters with tax authorities in Pakistan, despite the senior management's participation with governmental regulations and interactions with tax officials experiencing changes over the years. These changes can result from regulatory organizations' efforts to simplify procedures and foster a more welcoming environment for business.

The data from 2007, 2013, and 2022 demonstrate a gradual but considerable change in government legislation and tax authorities in Pakistan's manufacturing and services sectors. Despite the ongoing difficulties, there has been a clear trend over time towards greater compliance efforts and higher regulatory effectiveness. These observations provide insightful advice for decision-makers, corporate executives, and stakeholders, highlighting the necessity of ongoing efforts to simplify regulatory procedures.

2. Days to obtain a permit/license

When compared to South Asian countries and the worldwide data, Pakistan had the lowest average number of days required to obtain an operating license at 5 days.

Figure 6: Average number of days to acquire an operating license

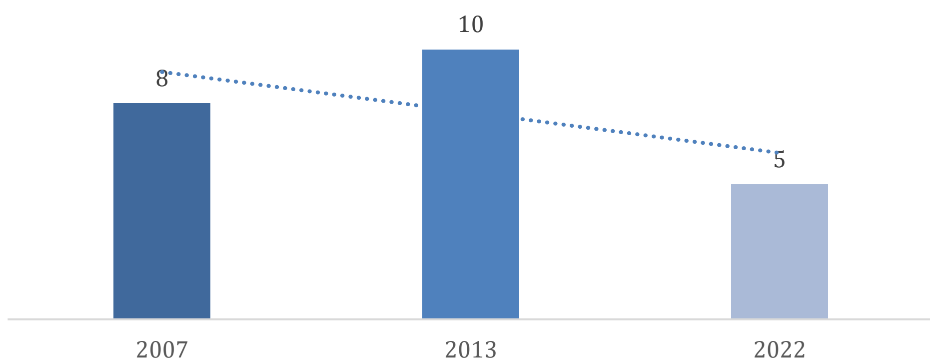


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

According to data gathered in 2007, 2013, and 2022, Pakistan has achieved considerable improvements to its business regulations throughout time, continuing its impressive trend of economic progress. The time needed to secure different licenses and permits is an important component of this progress.

In Pakistan, average days to obtain permits/licenses were lowest in 2022 at 5 days when compared to 2007 and 2013.

Figure 7: Average number of days to acquire an operating license within Pakistan

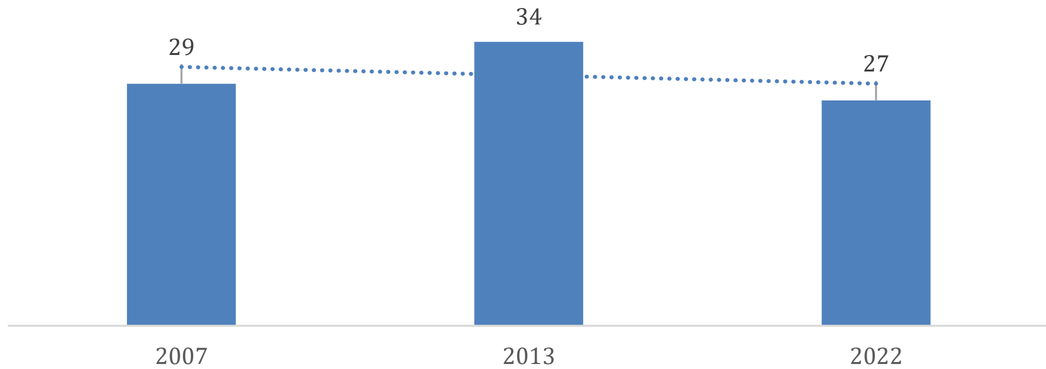


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Businesses in Pakistan encountered significant difficulties in 2007 trying to get operating licenses. The procedure took 8 days on average, which was a lengthy time period. Moving ahead to 2013, we notice a slight increase in the amount of time needed, with the average increasing to 10 days. However, the average time to obtain an operating license decreased to 5 days in 2022 due to this trend. This development suggests improved procedures and a dedication to creating a more welcoming environment for business.

The data reveals a similar trend in the construction-related permit domain. Businesses experienced considerable delays in 2007, and it took an average of 29 days to obtain a construction-related permit. The average duration decreased to 34 days by 2013, which again proved to be difficult for business in terms of the permission procedure. However, by 2022, this number had dropped to just 27 days, demonstrating a significant improvement. This expedited processing time is essential for stimulating infrastructure growth and attracting investment to the building industry.

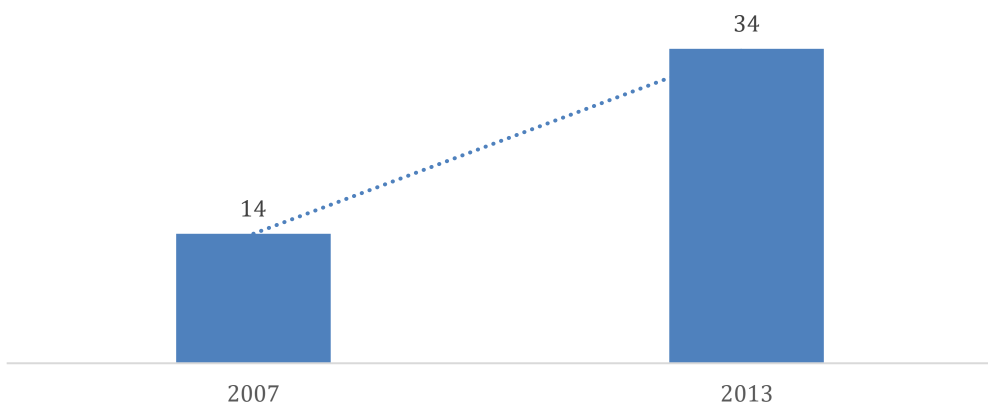
Figure 8: Number of days to acquire a construction-related permit – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Positive changes were also made to the import license process. The procedure was time-consuming in 2007, taking 14 days on average. However, the average number of days needed to obtain an import license increased to 34 in 2013.

Figure 9: Number of days to acquire an import license – trend for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

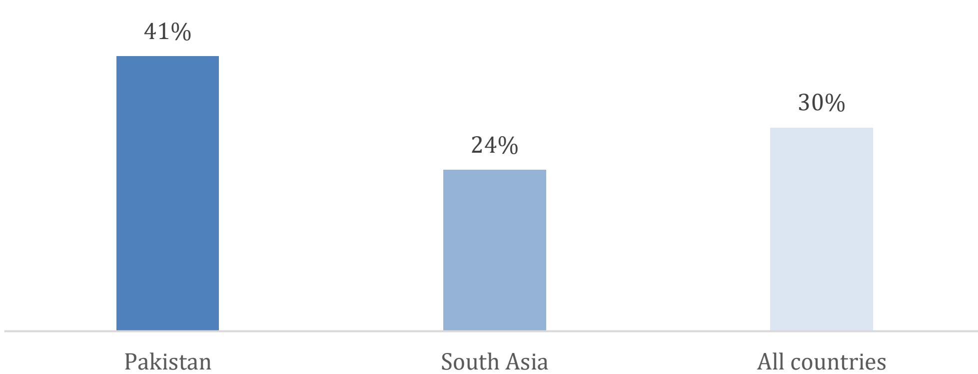
An intriguing pattern is noted when comparing the manufacturing and services industries. Both industries had trouble acquiring licenses and permits in 2007. The manufacturing industry, however, showed more steady improvements over time. In terms of the time needed to get operating licenses and import licenses, the manufacturing sector performed better than services by 2022. This distinction could be ascribed to deliberate policy changes meant to support activities that support industrial growth and exports.

The length of time needed to secure licenses and permissions is steadily decreasing, and this has important ramifications for Pakistan's economic environment. First, it can make the nation more appealing to domestic and foreign investors. Process simplification creates an atmosphere where companies can launch operations fast, boosting investments and creating jobs. Second, effective licensing procedures are essential for encouraging entrepreneurship, especially among small and medium-sized businesses (SMEs). SMEs can concentrate more on their primary activities and growth strategy with fewer administrative barriers.

3. Percent of firms identifying taxes and permits as constraints

In 2022, approximately 41% of firms in Pakistan identified taxes and permits as significant constraints, which is significantly higher than South Asia’s 24% and the world’s 30%.

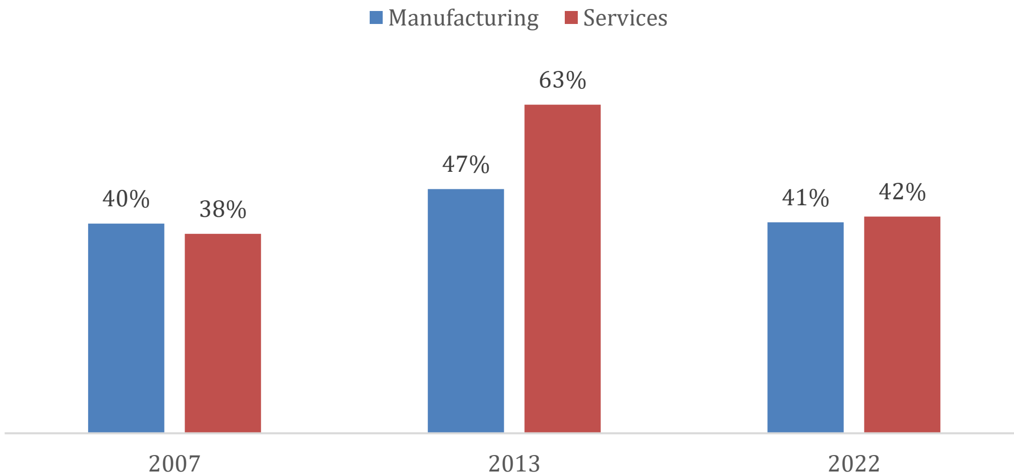
Figure 10: Percent of firms identifying tax rates as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Over the years, tax rates have remained a consistent concern for businesses across sectors. Tax rates were cited as a significant constraint by an average of 40.3% of manufacturing companies in 2007, showing the burden they placed on their business operations. Moving forward to 2013, manufacturing companies reported tax rates as a major limitation at a slightly higher rate of 46.9%, indicating the problem was still present. Unexpectedly, by 2022, this percentage dropped to 40.5%, indicating a marginally positive change.

Figure 10: Percent of firms within Pakistan identifying tax rates as a major constraint

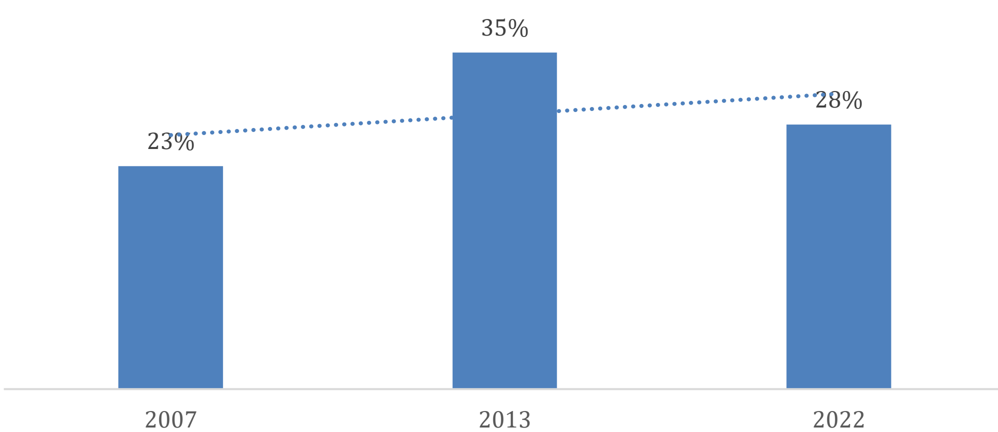


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

In the services sector, a similar trend emerges. 38% of businesses in the service industry in 2007 viewed tax rates as a serious barrier. In 2013, this percentage increased to 63%, highlighting the growing pressure. Surprisingly, the services sector saw a large reduction to 42% by 2022, demonstrating a major improvement. These figures highlight a good effort being made to address the ongoing tax rate issue, particularly in the services sector.

Businesses have long had to navigate the complex web of tax administration. In 2007, a sizeable 23% of manufacturing companies said that tax administration was a major challenge. Similarly, this number increased to 35% in 2013. Positively, the percentage decreased to 28% by 2022, indicating improved tax administration procedures.

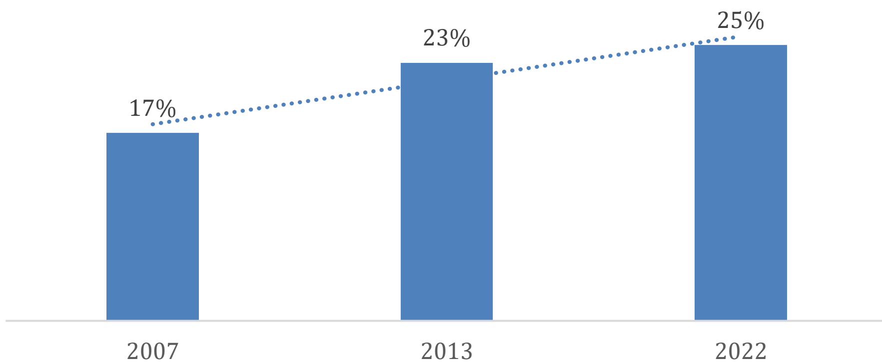
Figure 11: Percent of manufacturing firms identifying tax administration as a major constraint – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Over time, methods for navigating the complex network of business licenses and permits have changed. With percentages ranging from 4% to 26%, manufacturing companies reported considerable restrictions in this area in 2007. For instance, the machinery and equipment and electronics sector saw significant challenges due to a 26% limitation, underscoring the need for reforms. By 2013, there had been a general increase in licensing and permit-related restrictions on businesses, with the manufacturing sector average increasing from 17% in 2007 to 23% in 2013. This was followed by another slight rise to 25% in 2022.

Figure 12: Percent of manufacturing firms identifying business licensing and permits as a major constraint – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Wish to Contribute to Gallup Big Data Analysis?

Gallup Pakistan is looking for collaboration with researchers to expand the Big Data Analysis project. If you have any ideas, please write to Bilal I Gilani, Project Director, Big Data Analysis at Gallup Pakistan.

Wish to know more about the Enterprise Survey 2022?

The Enterprise Surveys (ES) focus on many aspects of the business environment. These factors can be accommodating or constraining for firms and play an important role in whether an economy's private sector will thrive or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity — key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. Questions contained in the ES aim at covering most of the topics mentioned above. The topics include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business.

The ES are repeated approximately every four years for a particular economy (or region). By tracking changes in the business environment, policymakers and researchers can look at the effects of policy and regulatory reforms on firm performance. Repeated surveys aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

You can find more information on the Enterprise Survey, and complete tables, on

www.worldbank.org

Or visit:

Enterprise Surveys 2022

Disclaimer: *The views and inferences expressed in the article are that of the author himself and Gallup Pakistan does not take any responsibility in this regard. This series, and many such initiatives, are internally funded by Gallup Pakistan and Gilani Research Foundation. No outside country or local funding has been received for this current activity.*

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