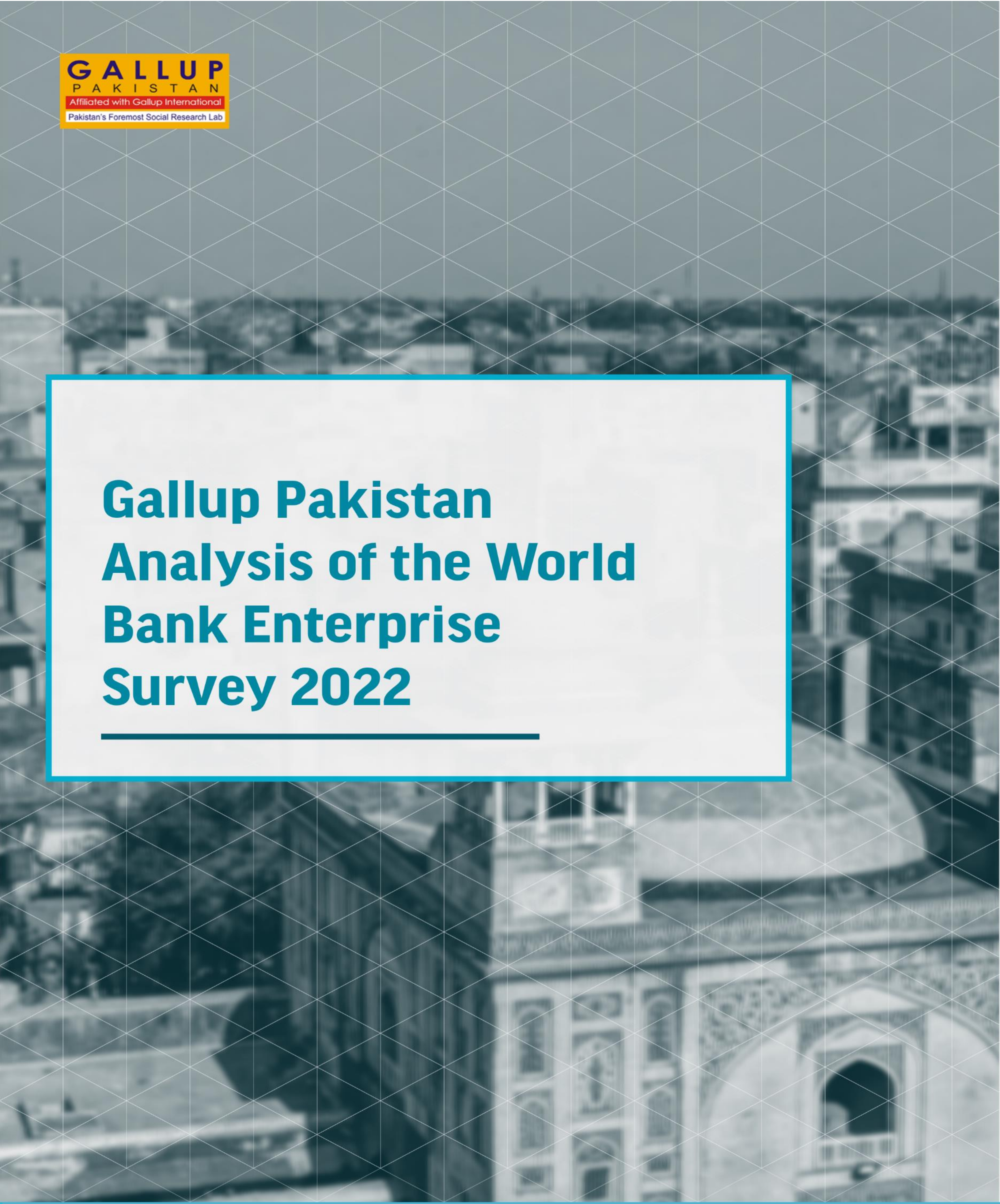

GALLUP PAKISTAN
Affiliated with Gallup International
Pakistan's Foremost Social Research Lab

Gallup Pakistan Analysis of the World Bank Enterprise Survey 2022

www.gallup.com.pk

August 31, 2023

EDITOR'S NOTE

Pakistan and its economy are going through a transitionary period; while it is still recovering from the shocks brought about by Covid 19, it also has to navigate tumultuous national as well as international political and economic conditions. In such times, it becomes even more important to identify the pain points faced by businesses to ensure sustainable and efficient growth.

The Enterprise Surveys (ES), conducted by the World Bank, 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 topics including infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business.

This issue of the ES report covers the third wave of the surveys conducted for Pakistan, in 2022. It includes a representative sample of 1300 firms in the nonagricultural formal private economy. Wave 1 was conducted in 2007 and wave 2 in 2013. 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, alongside comparisons with regional and global averages, aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

Studying the indicators of the World Bank Enterprise Survey for Pakistan can provide a starting point for a larger discussion about the sustainability and optimization of businesses in the country, leading to social and policy implications.

Zainab Khan

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Landscape of Enterprises in Pakistan

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Landscape of Enterprises in Pakistan

1) Gender disparity in firm leadership continues: Only 2% of the Pakistani firms have a majority female ownership, compared to 14% of the world and 9% of South Asia. It is not a positive sign for on grounds of gender equality in the workplace; significant effort would be required on a granular level to align these figures with the global standard.

2) Political instability and access to finance remain largest obstacles - financial services under-utilized: 27% firms chose political instability in Pakistan as their biggest obstacle while it was access to finance for 15% firms. For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022.

3) Positive trends in trade as imports decrease and exports higher than regional average: Only 18% Pakistani firms import inputs from abroad, three times less than the global figure (62%). 5% of the sales from Pakistan are exported directly. This is higher than South Asia's 4%.

4) Power outages a deterrent for businesses: Firms in Pakistan experience 22 electrical outages in a typical month, 4 times more than the global average (5). For every day a country across the world faces electrical outages, firms in Pakistan experience outages in four. Even the number of days for South Asia is almost half as low, at 12%.

5) Innovation remains a challenge as sales decline: Only 3% of firms in Pakistan introduced a new product or service, 8 times less than the regional average (25%) and 12 times less than the global average (36%). There are no Pakistani firms, out of the 1300 surveyed, whose new product or service is also new to the main market. On the other hand, businesses in Pakistan recorded a -6% growth in real annual sales in 2022, compared to the last three years.

6) Informal sector a looming danger - corrupt practices prevalent while regulations relax: 45% of firms in Pakistan find themselves competing against unregistered or informal firms. Additionally, approximately 22% of enterprises in Pakistan assert that public officials anticipate receiving "presents" to facilitate the accomplishment of tasks or objectives. In terms of regulations, 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.

Female Participation

Female Participation – Key Findings

1. **Female participation in employment, top management and ownership:** For every firm in Pakistan with a female owner, there are 3 in South Asia (14%) and 5 in the entire world (32%).
2. **Female participation in ownership vs. majority female ownership:** Only 2% of the Pakistani firms have a majority female ownership, compared to the 14% of the entire world and the 9% of South Asia.
3. **Female participation in employment - production and non-production:** For a single female production worker in the manufacturing firms in Pakistan, there are 5 in South Asia (20%) and about 7 in the entire world (27%).

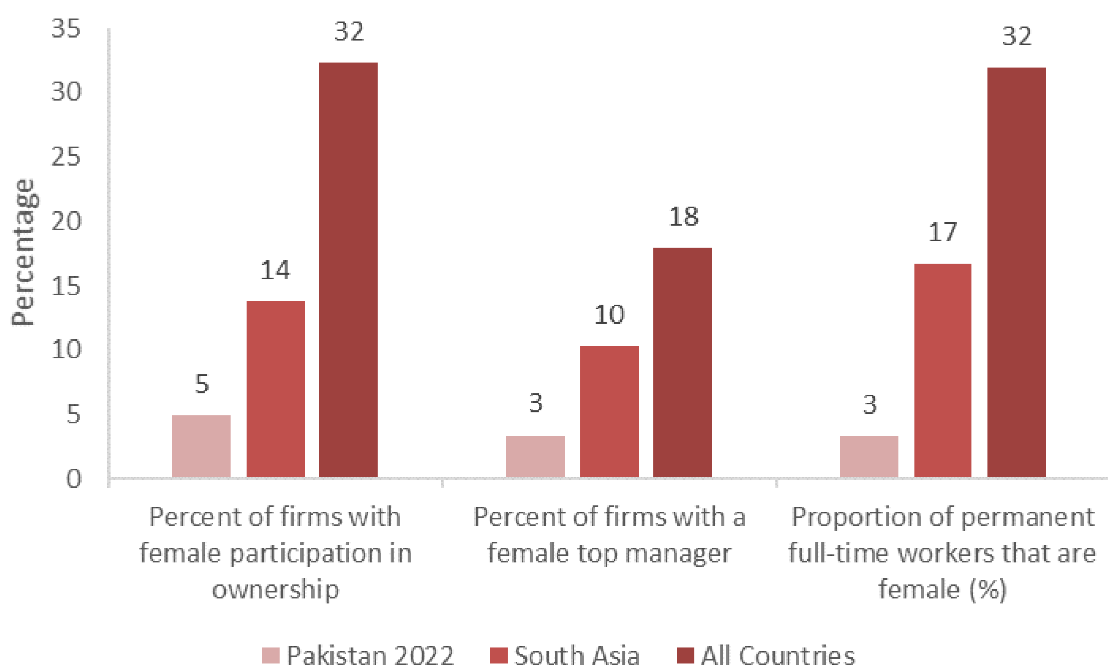
1. Female participation in employment, top management and ownership

For every 1 firm in Pakistan with a female owner, there are almost 3 in South Asia (14%) and around 5 (32%) in the entire world that have some sort of female participation in ownership.

The findings from the survey are represented in Figure 1. Only 5% of firms in Pakistan have female partnership in ownership, compared to 14% of South Asian firms and 32% of the world's firms. This means that for every 1 firm in Pakistan with a female owner, there are almost 3 in South Asia and around 5 in the entire world.

This disparity also continues into other forms of female participation, as only 3% of Pakistani firms have female top managers and proportion of full-time workers that are female. This is compared to 10% South Asian firms that have women as top managers and have women making up 17% of the permanent full-time workers. This is still almost 50% of the findings for all countries, where women make up 32% of the permanent full-time workforce.

Figure 1: Female participation in employment, top management and ownership



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

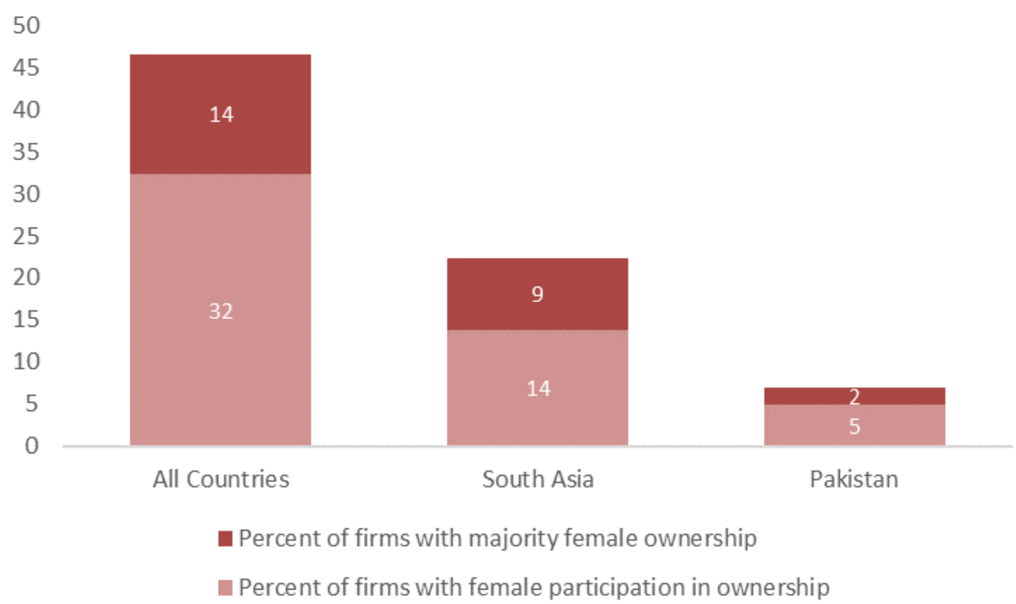
2. Female participation in ownership vs. majority female ownership

It is interesting to note that even for firms that have female ownership, there is a substantial difference between those that have some female participation in ownership and those that have majority female ownership. Whether Pakistan, South Asia, or the entire world, majority female ownership is significantly less than just some part in ownership.

Only 2% of the Pakistani firms have a majority female ownership, compared to the 14% of the entire world and the 9% of South Asia. This means that for every 1 Pakistani firm that is owned majorly by women, there are 7 such firms in the entire world and more than 4 just in South Asia. Even on a global scale, however, there are more than double the number of firms with some female ownership (32%) than there are with majority female ownership (14%).

These differences imply a global trend that spans across South Asia and also within Pakistan: while female participation in ownership is a little more than quarter of the total ownership in firms across several different sectors, there are a considerably less number of firms where female ownership is in majority.

Figure 2: Female participation in ownership vs. majority female ownership



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Female participation in employment - production and non-production

In manufacturing firms, there is a higher proportion of women employed in non-production roles compared to production roles. For a single female production worker in the manufacturing firms in Pakistan, there are 4 in South Asia and more than 5 in the entire world. In the Pakistani workforce, there are only 4% and 5% females in production and non-production roles, respectively. This value is drastically higher for South Asia as a whole, at 20%.

However, the global proportion of women in permanent full-time roles decreases for those in production roles - it lowers from 38% to 27%. For Pakistan, this decline is only by 1%.

Figure 3: Female participation in employment - production and non-production

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

It should be noted that the Enterprise Survey excluded sectors like agriculture, fishing, public administration, education, and health, focusing primarily on firms involved in manufacturing, retail, IT and the hospitality industry. Being a primarily agriculture-driven country with a large rural population, there is a greater number of women employed in farming and more informal industries. Regardless, the alarmingly low rates of female participation in the firms surveyed, compared to the region and the world, can be a cause of concern for policymakers and governing bodies.

Business Environment Obstacles

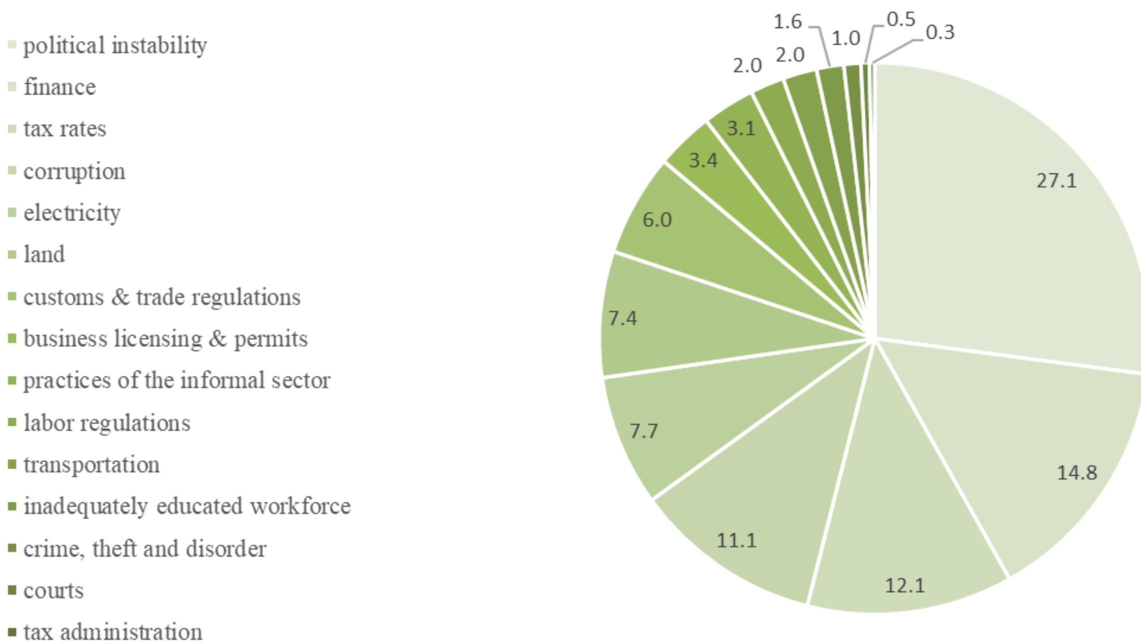
Business Environment Obstacles - Key Findings

1. **Biggest obstacles faced by businesses:** 27% firms chose political instability in Pakistan as their biggest obstacle.
2. **Top three business environment constraints by size:** 37% of the small firms cite political instability as the largest business environment constraint, with 16% citing access to finance as their biggest obstacle.
3. **Top three business environment constraints by exporter type:** Compared to businesses that export more (12%), more than twice as many businesses that are non-exporters consider political instability their largest obstacle (28%).

1. Biggest obstacles faced by businesses

Out of the 1300 surveyed, 27% firms chose political instability in Pakistan as their biggest obstacle. The next largest obstacle was reported to be finance at 15%, followed by tax rates at 12% and corruption, at 11%. Electricity and land also made up a significant chunk of the obstacles faced by businesses with 11% and 8% businesses reporting these are their biggest obstacles respectively. However, it is important to note that firms from the agriculture, mining or fishing sectors were not surveyed, where the impact of having access to land and transportation may be greater. Similarly, in the public administration sector, an inadequately educated workforce may be a more serious obstacle compared to the manufacturing or construction firms.

Figure 1: Biggest obstacle faced by firms - Pakistan

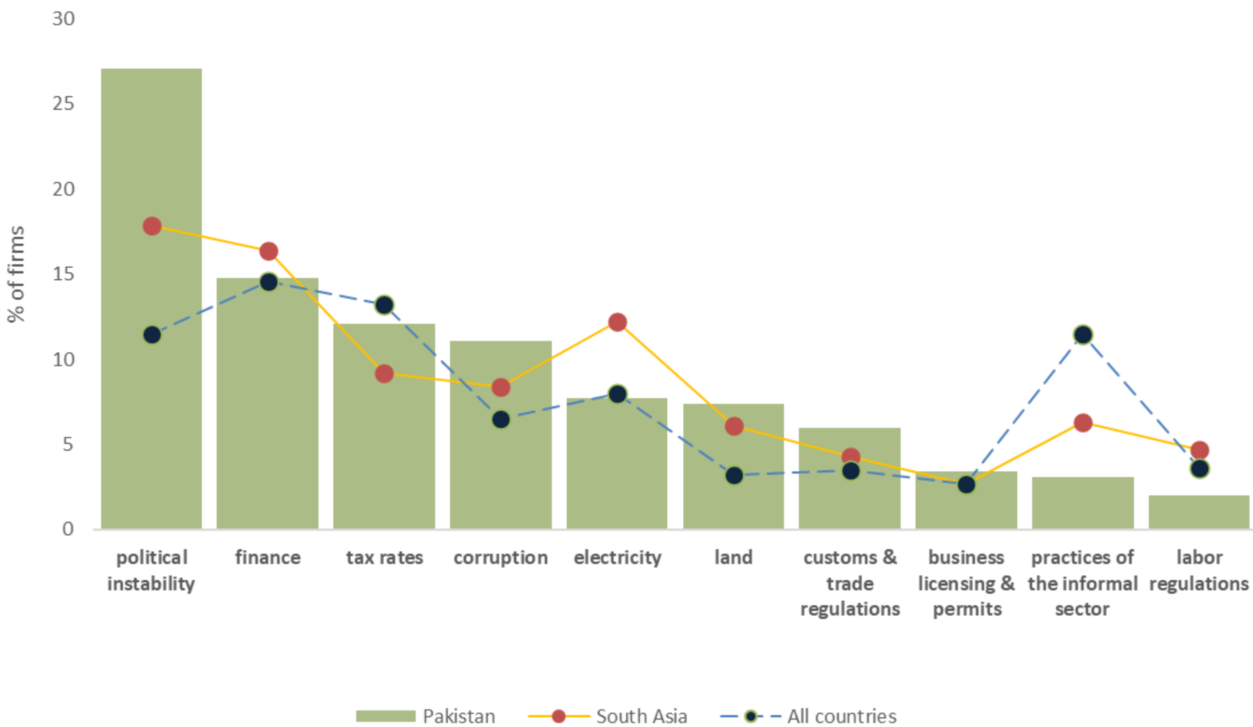


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Comparing the top ten biggest business environmental constraints in Pakistan to their proportion in South Asia and the rest of the world presents useful insights. Political instability is a significantly larger concern in Pakistan (27%) than it is in South Asia (18%) or the world as a whole (12%).

On the other end of the spectrum, practices of the informal sector and labor regulations are less of an obstacle for Pakistani firms (2% each) than they are for South Asian firms and businesses around the globe. They are the largest obstacle for 6% South Asian firms and 12% firms around the world - for every business in Pakistan seriously concerned about the informal sector, there are 6 around the world that are worried about it. For policymakers and business analysts, studying the reasons for this difference despite the large size of Pakistan's informal sector, would be an interesting exercise.

Figure 2: Top 10 biggest obstacles - Pakistan, South Asia and the world



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

In addition, while electricity is not a major concern for most businesses in Pakistan and also worldwide (only 8% businesses consider it a serious obstacle), 12% of South Asian businesses consider it their top constraint. Further research into which of the South Asian countries is driving this number up and what the businesses there are doing to combat the electricity problem could produce relevant analysis for Pakistan.

Figure 3: Comparison between Pakistan, South Asia and the world

Economy	inadequately educated workforce
Pakistan	1.6
South Asia	3.4
All countries	10.3

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

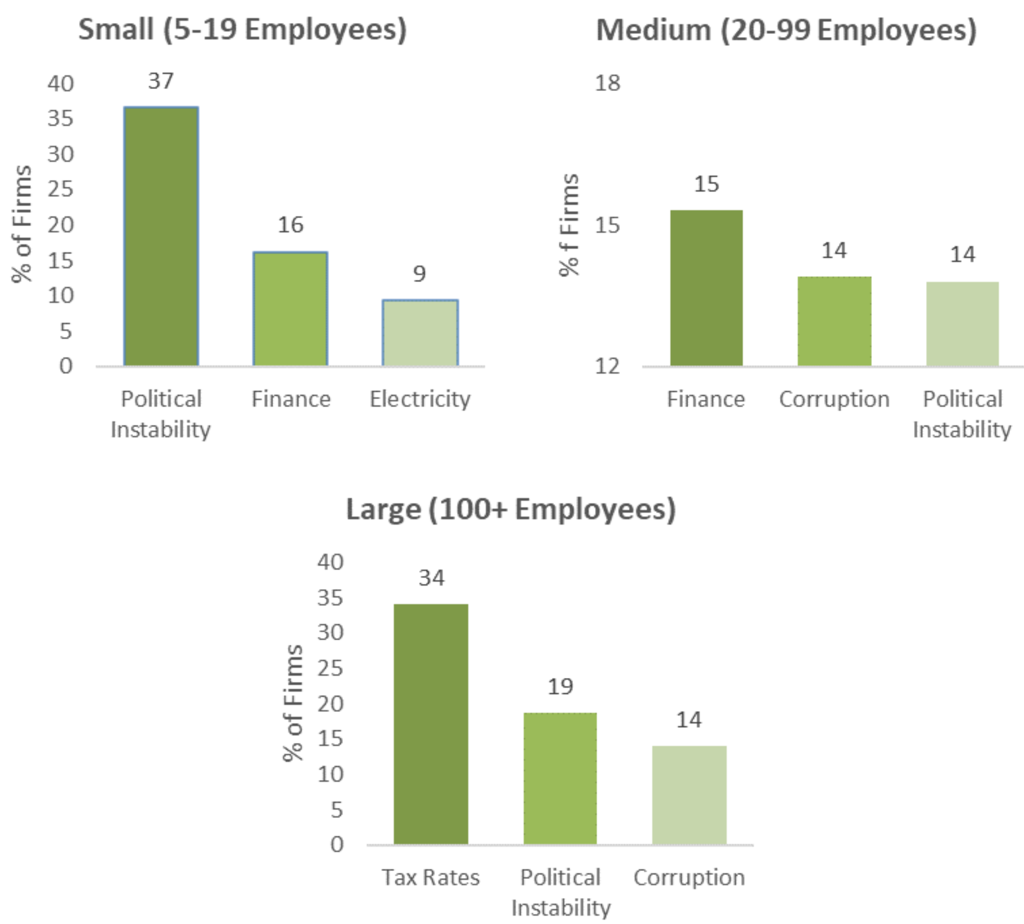
Another factor, while not in Pakistan's top ten largest business environment obstacles but intriguing nonetheless is "inadequately educated workforce". For South Asia, double the number of companies as Pakistan stated this to be their most pressing obstacle. However, at the world scale, the education of the workforce is a much larger cause of concern. 10% of global businesses, a number 6 times larger than that of Pakistan, consider this their biggest obstacle.

Since Pakistan has a much lower literacy rate (58%) compared to the global average (86%), the reason for this difference in priority is something worth exploring. It may be due to the overwhelming threat businesses feel from the political instability, or an indication of the importance each region gives to the quality of their workers' education.

2. Top three business environment constraints by size

37% of the small firms cite political instability as the largest business environment constraint, with 16% citing access to finance as their biggest obstacle, followed by electricity (9%).

Figure 4: Top three business environment constraints by company size – Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

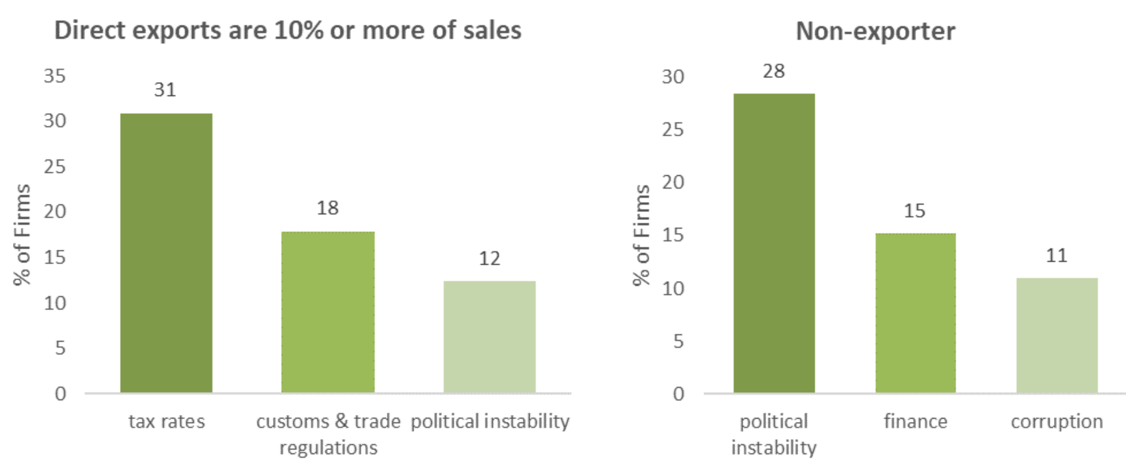
Medium-sized firms, on the other hand, have a less concentrated distribution of constraints, with access to finance at the top with only 15% medium sized firms claiming it to be their biggest obstacle. Corruption and political instability both come second at 14%. For larger firms, tax rates are a significantly large obstacle, with 34% firms claiming as such. 19% think political instability is their biggest problem while 14% deem it to be corruption.

The sizes of the firms surveyed change what they think is the largest obstacle they are facing. For all three, political instability is one of the major concerns even if it is not the largest one. Smaller firms may be more affected by it because of the uncertain nature of such disruptions and their lack of capital or stock to keep up with it. Access to finance is also a major problem identified by both small and medium sized firms, perhaps reflecting their ability to take loans and invest in technology. Large firms, on the other hand, have to worry about taxes and tax rates because of their size, and consequently their taxable income. As far as problems like access to finance go for larger firms, they are more likely to have contingency plans in place in case anything unusual occurs.

3. Top three business environment constraints by exporter type

Compared to businesses that export more (12%), more than twice as many businesses that are non-exporters consider political instability their largest obstacle (28%). Social unrest and closure of infrastructure that accompanies political instability may be a larger cause of concern for businesses that operate within Pakistan and are reliant on the transport routes and customer bases within the country. Their businesses are more likely to be impacted by driver strikes or protests on the road, for example. Similarly, corruption is also considered a major obstacle by 11% of non-exporting businesses, while not a lot of exporting firms consider it a serious problem.

Figure 5: Top three business environment constraints by exporter type



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

For businesses where 10% or more of their sales are exports, tax rates are bigger obstacles for 31% of the firms because a business that exports is likely to be a larger business, thus getting more deeply impacted by tax and interest rates. This can also possibly be the reason why even though 15% non-exporters say access to finance is a major concern for them, financing problems do not make the list for exporting businesses. However, customs and trade regulations are the top business environment obstacle faced by 18% of exporting firms. This is understandable since trade regulations directly affect them, and are also the means in which political instability materializes for international sellers.

Workforce Statistics

Workforce Statistics - Key Findings

1. **Percent of firms offering formal training:** Only 6% of firms in Pakistan offer formal training to their workers.

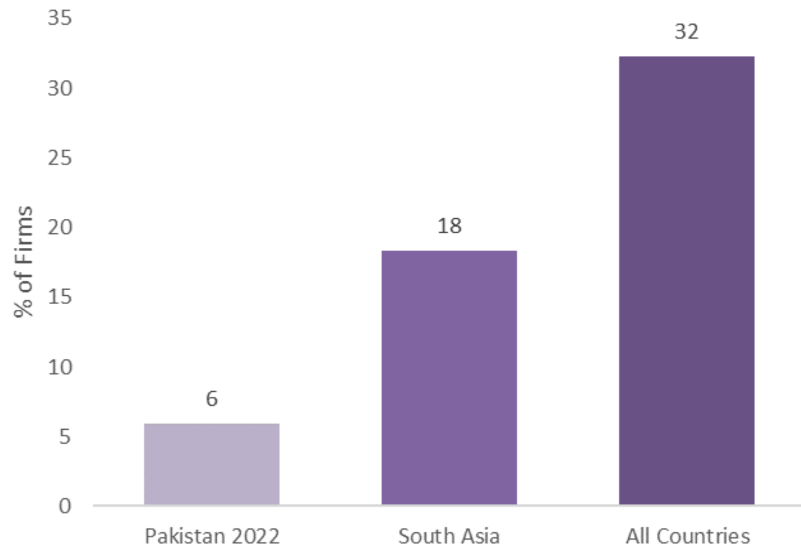
2. **Proportion of workers trained**: Within firms offering training, the proportion of workers trained for all countries in the world is approximately 50%. For Pakistan, only 37% of the workers at firms offering formal training end up getting trained.

3. **Major constraints pertaining to the workforce:** 16% of Pakistani businesses identified an inadequately educated workforce as a major constraint; 9% claimed it was labor regulations.

1. Percent of firms offering formal training

The 18% of South Asia as a region itself is almost half of the proportion of companies worldwide that provide formal training to their employees. This is reflective of the business practices in the region and further probing may help the formation of policies that could increase business efficiency by incorporating formal training where possible.

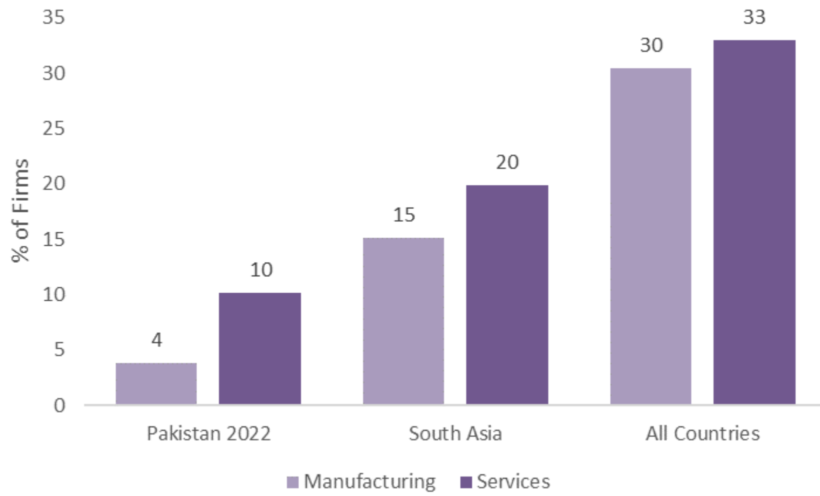
Figure 1: Percent of firms offering formal training



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Only 6% of firms in Pakistan offer formal training to their workers. This is more than five times less than the number of companies across the world that offer training to their employees (32%) and more than three times less than South Asian businesses, 18% of which offer formal training to their workers. This figure looks bleaker when the types of companies that were surveyed by the World Bank for the Enterprise Survey are taken into consideration, which are from the manufacturing, retail, hospitality and the IT industries.

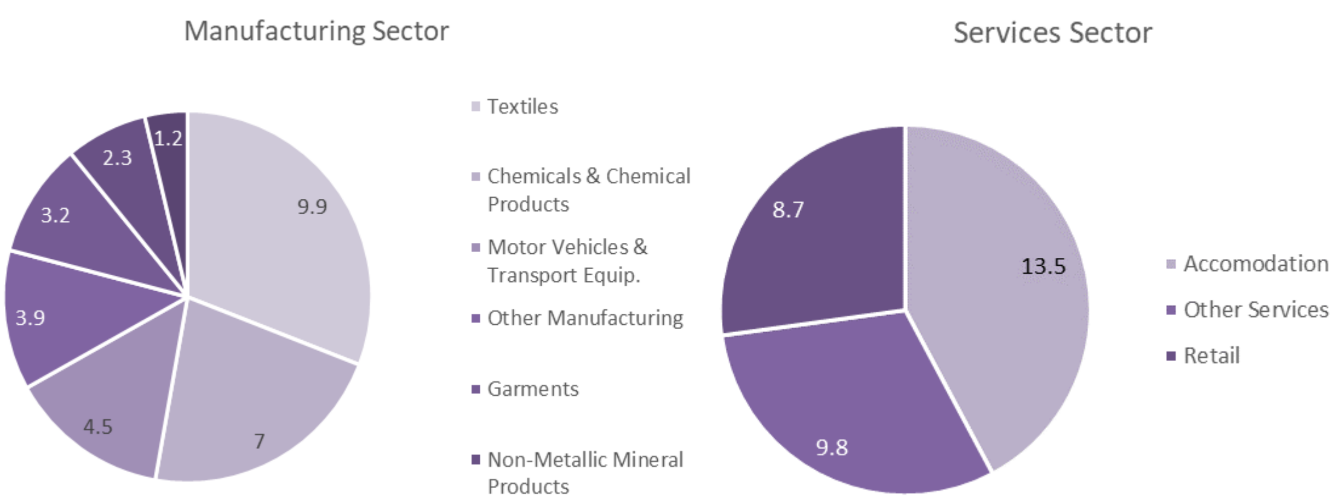
Figure 2: Percent of firms offering formal training - by sector



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Further looking into a sector-wide breakdown of firms that offer formal training to their employees, the manufacturing sector of Pakistan presents a particularly disconcerting image in comparison to South Asia and the world. Only 4% of firms in the manufacturing sector offer their employees training. Considering that the manufacturing related jobs are mostly mechanical and might not require as much company resources that prevent material from getting wasted in training as a sector like public administration or IT, a low training rate is not unexpected. However, 15% of South Asian manufacturing firms and 30% of firms in the manufacturing sector around the world - double the amount of South Asia - offer formal training to their employees. This may be done to ensure certain standards of quality for products or a more efficient use of factory resources

Figure 3: Percent of firms offering formal training in Pakistan - by sector (further breakdown)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

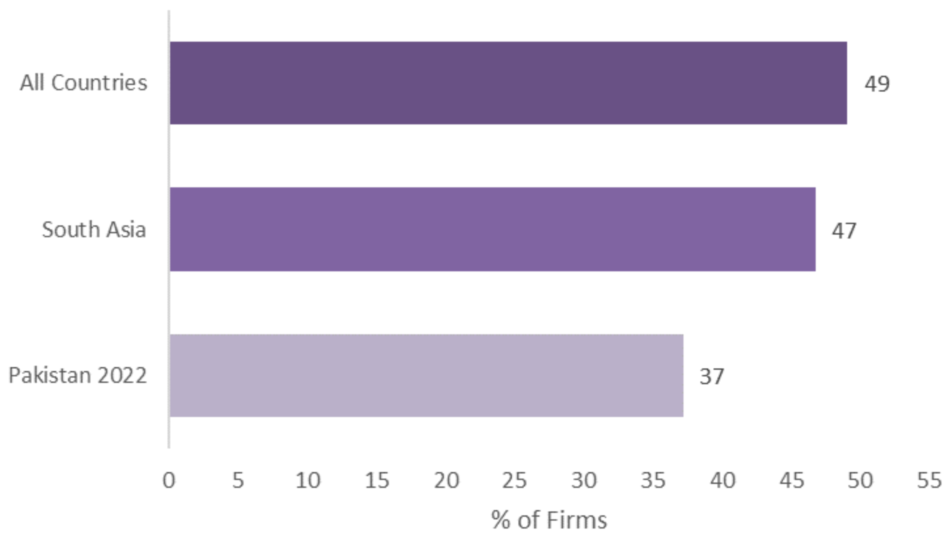
Further breaking down the number of firms offering formal training to their employees with respect to the two broad sectors included in the survey reveals that for Pakistan, 10 % businesses in the textile industry and 14% businesses in the accommodation industry make up the largest sub-groups in the manufacturing and services sectors respectively.

In the manufacturing sector, a lower proportion of firms offer to train their employees in almost all sectors. The sectors with the lowest percentage were non-metallic mineral products (1.2%), followed by garments at 2.3%. As of 2021, textiles and garments make up 60% of Pakistan's exports. If these industries employ more skilled labor, or offer training to the already employed workers, it could positively impact the country's exports as well.

2. Within firms offering training, proportion of workers trained

Within firms offering training, the proportion of workers trained for all countries in the world is approximately 50%. For Pakistan, only 37% of the workers at firms offering formal training end up getting trained. While the numerical difference between the two is only 13%, it should be kept in mind that these values are in proportion to the percentage of firms offering training in the first place.

Figure 4: Within firms offering training, proportion of workers trained



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Therefore, for Pakistan, the percentage of people getting trained will be from the 6% firms that are offering training, making the final value around 2% - the proportion of workers in comparison to the labor force that end up receiving formal training. For the world, this number is 50% of 32%, or 16%, eight times more than that of Pakistan. On a regional basis, 47% workers in the 18% firms that offer training end up getting trained. This is around 8% of South Asian workers, 4 times more than those in Pakistan.

While these figures represent only certain sectors of the economy, there are still valuable insights that can be drawn from them. Offering training to workers on the job and ensuring that a majority of workers receive it could not only positively impact labor productivity, but also add to the human resource available in the labor market. This may also create a new job market, for those who offer such training services. To bring business efficiency up to mark with the region and the world, training employees would be an essential step in ensuring an increase in quality of the workforce as a whole.

Figure 5: Deriving the proportion of skilled workers from total number of workers

	Number of workers	Proportion of permanent workers (out of all workers)	Proportion of production workers (out of all permanent workers)	Proportion of skilled workers out of all production workers)
Pakistan 2022	40	94	77	81
South Asia	34	94	73	77
All Countries	33	95	72	77

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

For the sectors surveyed in the Enterprise Survey, the total number of workers for Pakistan is 40% of the total workforce. Out of these, 94% are permanent workers, 77% out of which work in production. From within these 77%, 81% are skilled workers. After computing, the final percentage of skilled workers as a proportion of the number of workers is 23%. Less than quarter of the 40% of workers being employed are skilled. However, this number is lower for South Asia, at 20%, and even lower for all countries combined (17%).

These percentages indicate that while not a lot of workers are getting formally trained at their place of work, the proportion of skilled workers in Pakistan is still higher than the regional and global averages. If this was supplemented with on-the-job training, this number could further increase as well.

Figure 6: Proportion of skilled workers with respect to number of workers

Economy	Skilled workers (w.r.t number of workers) (%)
Pakistan	23
South Asia	20
All countries	17

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Major constraints pertaining to the workforce

16% of Pakistani businesses identified an inadequately educated workforce as a major constraint; 9% claimed it was labor regulations. A less educated workforce is the primary concern for South Asian and global businesses as well, with 19% firms in South Asia and 21% firms worldwide considering this a major constraint. With a low number of firms in Pakistan offering formal training to their employees and a high number of companies citing inadequately educated workforce as a major problem, the two could perhaps meet midway by starting training programs for their workers. While this may drive up costs in the short run, the benefits could be enjoyed by all the businesses in the future in the form of an increase in the overall expertise of the workforce, in some places substituting for the lack of education too.

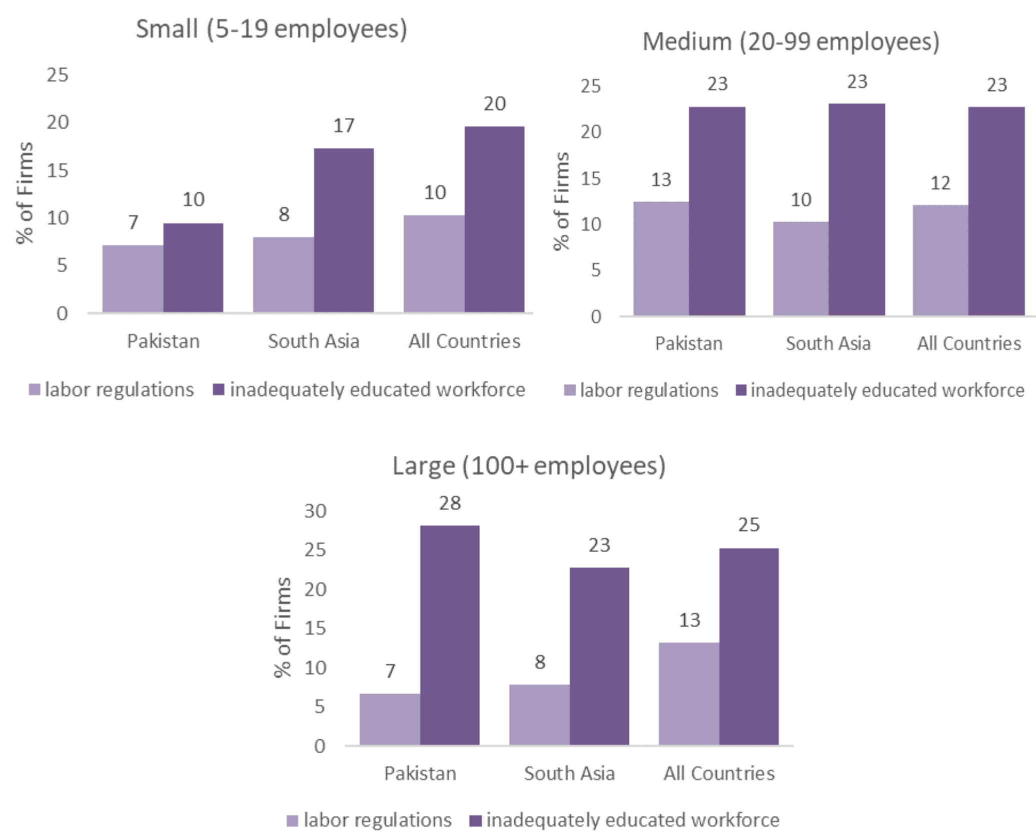
Figure 7: Major constraints pertaining to the workforce

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Looking at the major constraints faced by companies in Pakistan, South Asia and across the world by company size, it can be seen that an inadequately educated workforce is a problem primarily faced by large and medium sized companies. 28% large companies and 23% medium companies in Pakistan cite it as a major constraint. This figure stays the same across medium companies in South Asia and in the world. 23% large companies in South Asia and 25% large companies across the world find it a serious obstacle, a number less than Pakistan's, albeit not by much. This may be a result of the bigger companies having more in-house operations and therefore requiring more skilled labor to perform tasks more complex than smaller companies, who may either be more selective in their hiring process or not feel the need for highly educated workers.

On the other hand, there are a large number of small and medium companies in labor regulations. For Pakistan, the most firms that consider labor regulations a major problem are medium sized companies with 20-99 employees. An explanation for this could be the transitory nature of the companies' size, where they are moving from a smaller scale towards being considered large companies. This could bring about problems related to a bigger workforce, non-pecuniary benefits to be given to them, and regulations in terms of minimum wage. As companies become bigger, how they treat their workers also become more pronounced in the public eye, potentially becoming a constraint over time.

Figure 8: Major constraints pertaining to the workforce by firm size



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Trade

Trade - Key Findings

1. **Firms using inputs of foreign origin:** Only 18% Pakistani firms import inputs from abroad, three times less than the global figure (62%).

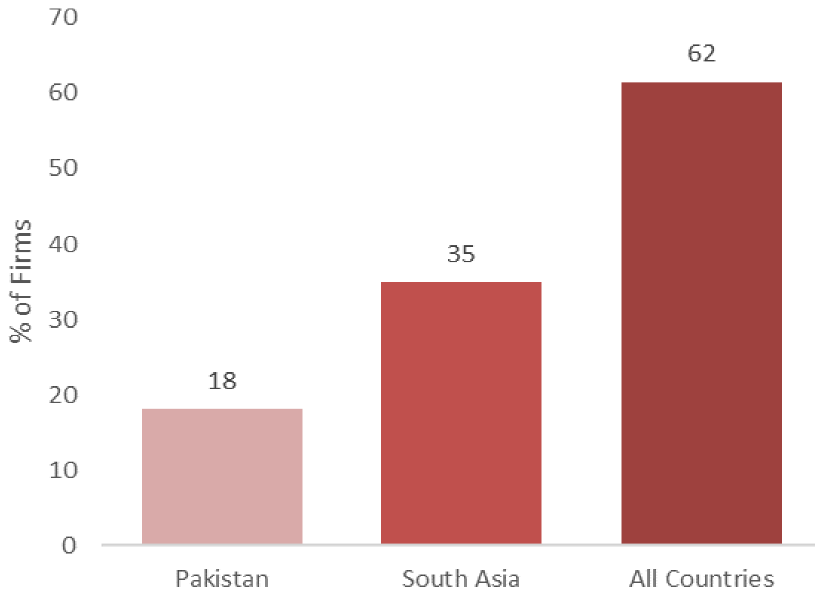
2. **Major constraint in trade:** 15% of Pakistani firms identify customs and trade regulations as a major constraint.

3. **Proportion of total sales that are exported directly:** 5% of the sales from Pakistan are exported directly. This is higher than South Asia's 4%.

1. Firms using inputs of foreign origin

Only 18% Pakistani firms import inputs from abroad, three times less than the global figure (62%). More South Asian firms import inputs compared to Pakistani firms as well, at 35%. While importing could be a double-edged sword in terms of trade and the balance of payment, importing supplies or inputs from foreign countries can contribute to enhancing exports by improving productivity, especially in the case of manufacturing and IT related firms.

Figure 1: Percent of firms using material inputs and/or supplies of foreign origin

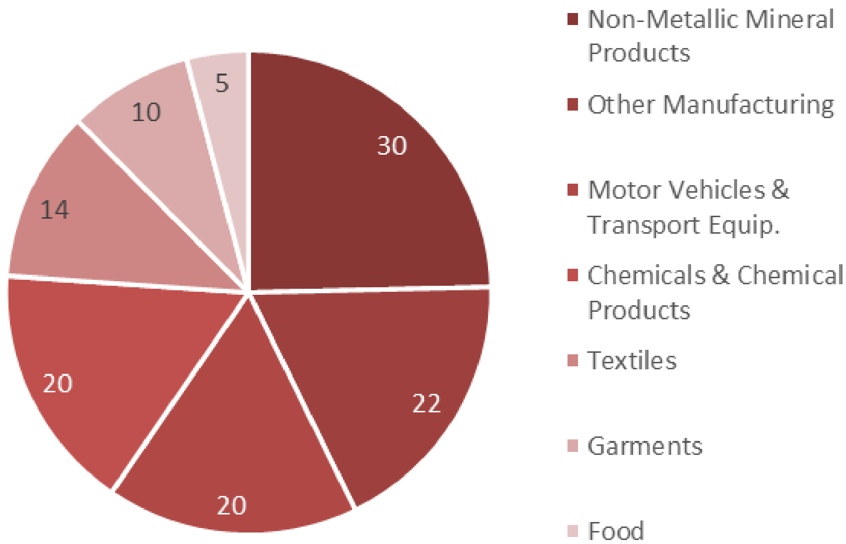


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The bulk of input imports in Pakistan is made up by the manufacturing sector, with 18% of manufacturing firms importing material or supplies from foreign countries; only 8% from the services sector do so. Within the manufacturing sector, firms in the non-metallic mineral product business make up the majority of the exporters, with 30% of them importing inputs from abroad. They are followed by companies in the motor vehicles and transport equipment industry with 20% of them importing inputs, along with the chemical and chemical products industry where 14% of the firms import their supplies.

Businesses in the chemical and mineral industries could benefit from importing supplies and inputs if doing so would help them create higher quality products, or enable them to increase their productivity. With better quality final products made using the imported inputs, it would be possible for these firms to export more of their output, thus contributing to the balance of payment. However, if the imports are not adding a lot of value to the final goods, then a high number could be detrimental and may not have the desired impact.

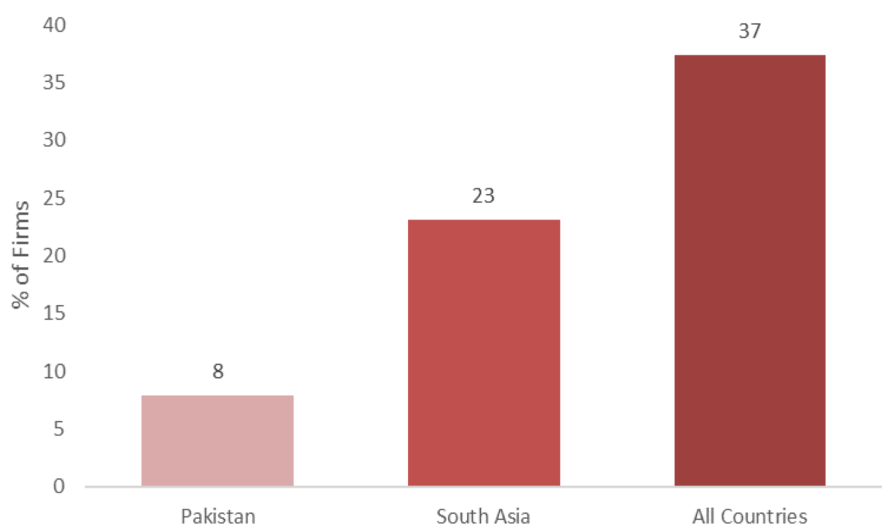
Figure 2: Percent of firms importing inputs - breakdown of manufacturing sector



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Of the 18% Pakistani firms that import inputs or supplies, there are only 8% of total inputs that are of foreign origin. This implies that these firms may only be importing smaller quantities or specific types of inputs. The proportion of imported inputs is almost three times as high for South Asia at 23%, and 4.5 times higher for the world at 37%. If import of material that can add value to finished products and contribute to exports is encouraged, an increase in imports could end up being beneficial for the economy in the long run. Importing technology and machinery are also one-time investments with long-term operational and economic benefits.

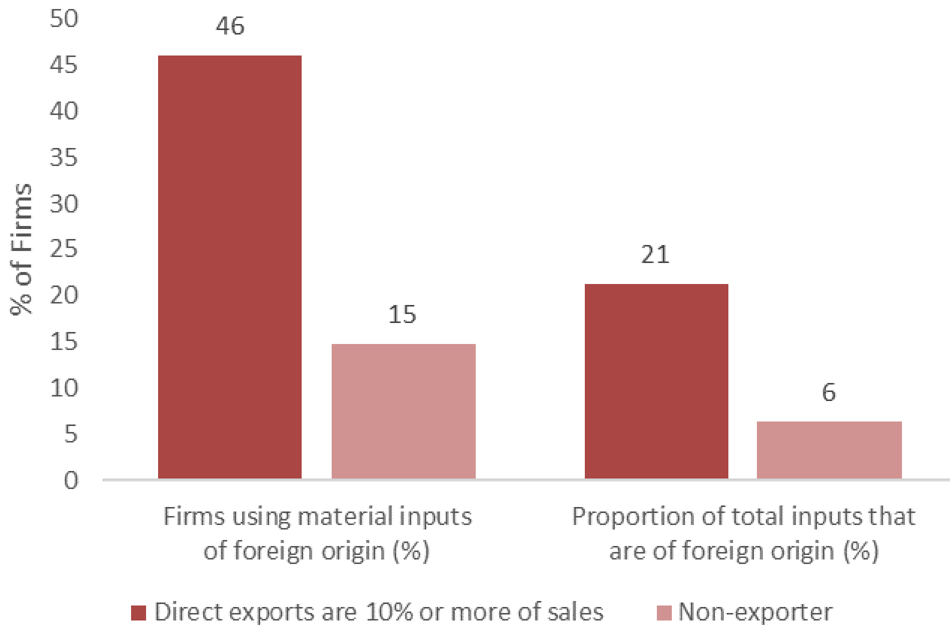
Figure 3: Proportion of total inputs that are of foreign origin (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Another important insight for Pakistan that the Enterprise Survey reveals is that it is, by a very large margin, firms that are exporters that also import material inputs of foreign origin. They make up 46% of the surveyed firms, which is three times more than non-exporting firms (15%). Similarly, firms that are themselves exporters also have 21% of total inputs that are of foreign origin, compared to non-exporters where only 6% of total inputs are imported. This may be due to the quality assurance protocols that exporting firms have to adhere to; inputs may have been imported to increase the quality of the products.

Figure 4: Firms' input importing behavior based on exporter type



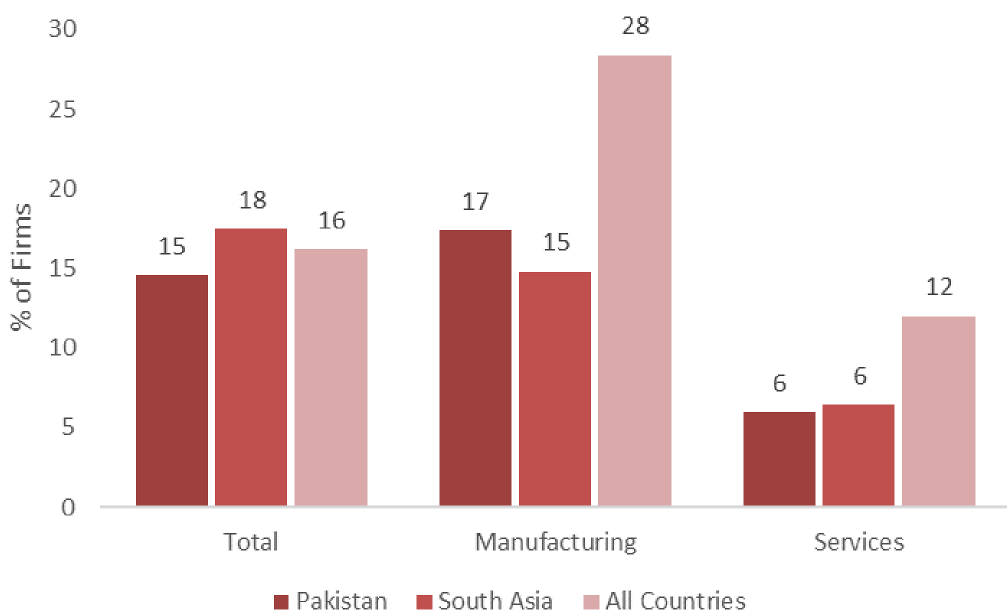
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

2. Major constraint in trade

15% of Pakistani firms identify customs and trade regulations as a major constraint. A vast majority within these are manufacturing firms, making up 17% of the total. Bringing this number down is the services sector, only 6% of whom consider customs and regulations a big problem. South Asia and the world follow a similar pattern, with a large number of manufacturing firms considering this a significant constraint, while not a lot of firms in the services sector share this view.

For South Asia, a total 18% of firms are unhappy with customs and trade regulations; 15% of them are manufacturing firms while 6% are from the industries in the service sector. For the world as a whole, almost double the number of firms (28%) in the manufacturing sector think of customs and trade regulations as a major constraint, while only 12% in the services sector are of a similar point of view. One explanation for this dissatisfaction could be due to the nature of exports - manufacturing firms trade goods and products which could take longer to get through customs, compared to the services sector which deals with human resources. It not only would have a different impact on customs and trade regulations, but a lot of IT companies, for example, can also operate remotely without having to cross borders in the first place.

Figure 5: Percent of firms identifying customs and trade regulations as a major constraint - by sector



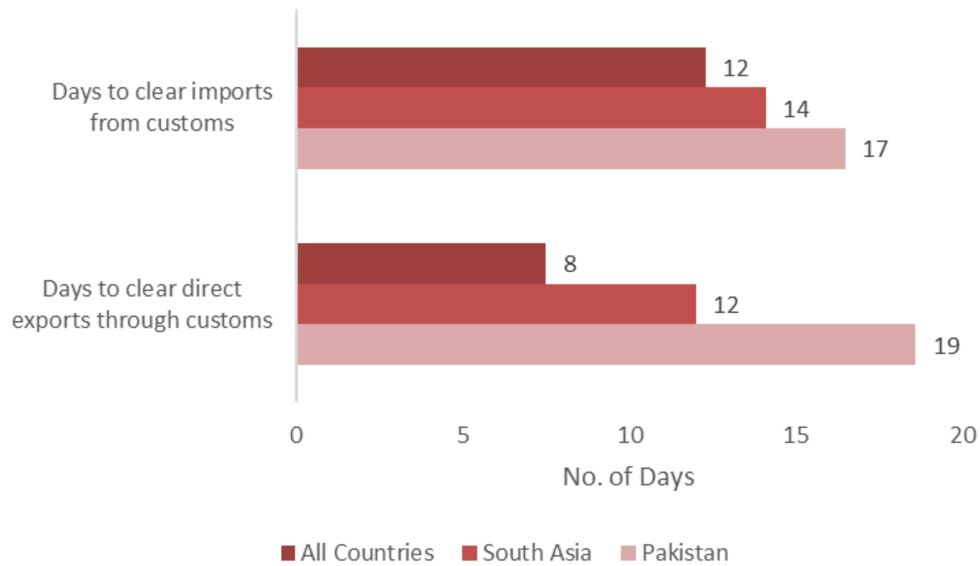
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Perhaps an explanation of the dissatisfaction of businesses with customs and trade regulations can be sought by looking at how many days it takes customs to clear imports and exports on average. Pakistani firms face longer waiting periods for both clearing imports and exports, compared not only to South Asia but also the rest of the world. It takes 17 days for customs to clear imports, compared to the 14 of South Asia and 12 of the world; this means that between Pakistan and the world as a whole, it takes Pakistani customs one additional work week (assuming one work week is five days long) to clear imports.

The time taken by customs to clear exports for Pakistan is 19 days, even more than that taken to clear imports. While this duration has increased for Pakistan, it has decreased for South Asia and the world as a whole. In South Asia, getting exports cleared by customs only takes 12 days, and even less globally at 8 days. The difference of 11 days between Pakistan and the global average could be slowing down operations and impact the earnings from exports, along with utilization of the imports that are needed urgently as raw materials or essential inputs.

Cutting down the number of days taken to clear imports and exports could prove beneficial by making trade more efficient and encouraging a greater number of businesses to partake in it. Especially for the businesses that are exporters of non-durable, perishable goods, a decrease in the waiting time could be good for business and consequently the economy.

Figure 6: Days taken to clear imports and exports through customs



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

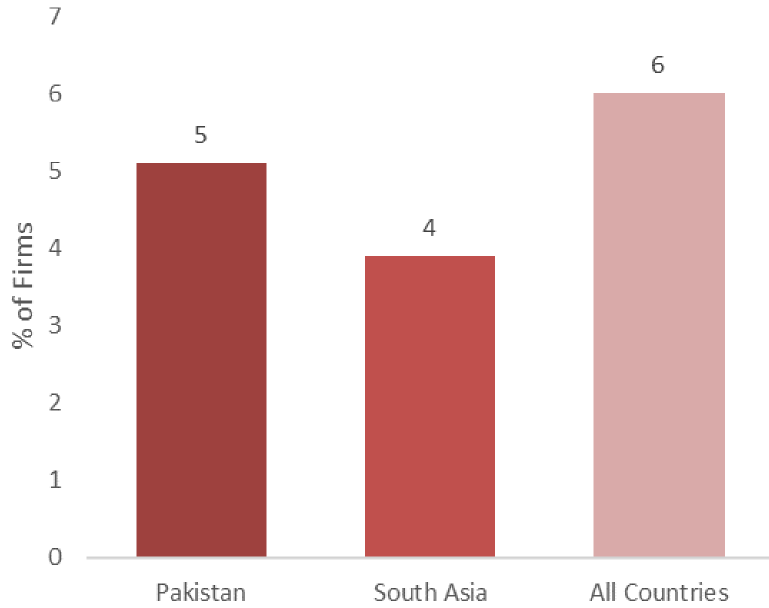
3. Proportion of total sales that are exported directly

5% of the sales from Pakistan are exported directly. This is higher than South Asia's 4%; the global proportion of sales that is exported is 6%, a little higher than Pakistan's. This implies a tendency for Pakistan's products to get exported directly, and a willingness of the global market to purchase them. In order to capitalize on these indications, it would be useful to make exporting an easier and smoother process from a legislative point of view.

It is also important to note that the figures revealed in the survey could vary after adding the imports and exports of the agricultural sector to them. For instance, agricultural products might be easier to export due to their perishable nature, but delays could arise because of quality control problems. Similarly, there could be a larger proportion of some agricultural outputs, like cotton and fruits, larger proportions of which are exported, driving the final proportion upwards.

Even while only considering the manufacturing and services sector, further room for growth in terms of international trade can be identified, which can then be facilitated by policy and on a diplomatic level by reducing red tape measures and making the process simpler. This will also remove a major constraint from a large portion of businesses, which could as a result operate more freely in the international market.

Figure 7: Proportion of total sales that are exported directly



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Infrastructure

Infrastructure - Key Findings

1. **Number of electrical outages in a month:** Firms in Pakistan experience 22 electrical outages in a typical month, 4 times more than the global average (5).

2. **Percent of firms experiencing water insufficiencies:** 2% firms in Pakistan experience water insufficiencies, nearly six times less than the number of countries around the world (12%).

3. **Transportation as a major constraint:** 25% of Pakistani firms identify transportation as a major constraint; this is more than both South Asian firms (22%) and firms in all countries (18%).

1. Electrical outages

51% Pakistani firms report facing electrical outages. On average, they experience 22 electrical outages in a typical month, 4 times more than the global average of 5. The percentage of firms facing electrical outages across South Asia and the world in general do not vary too much. More firms in South Asia face electrical outages compared to Pakistan, at 53%, while 49% of the firms in all countries do so.

Figure 1: % of firms facing electrical outages

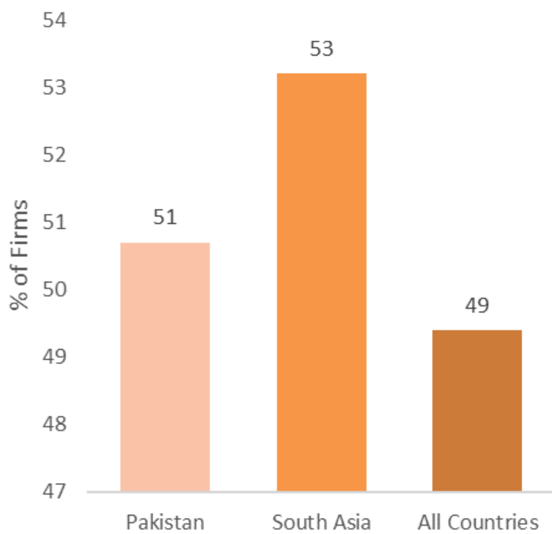
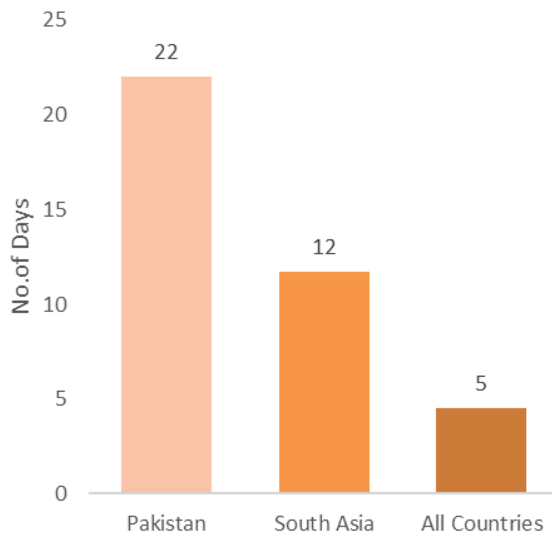


Figure 2: No. of electrical outages in a month

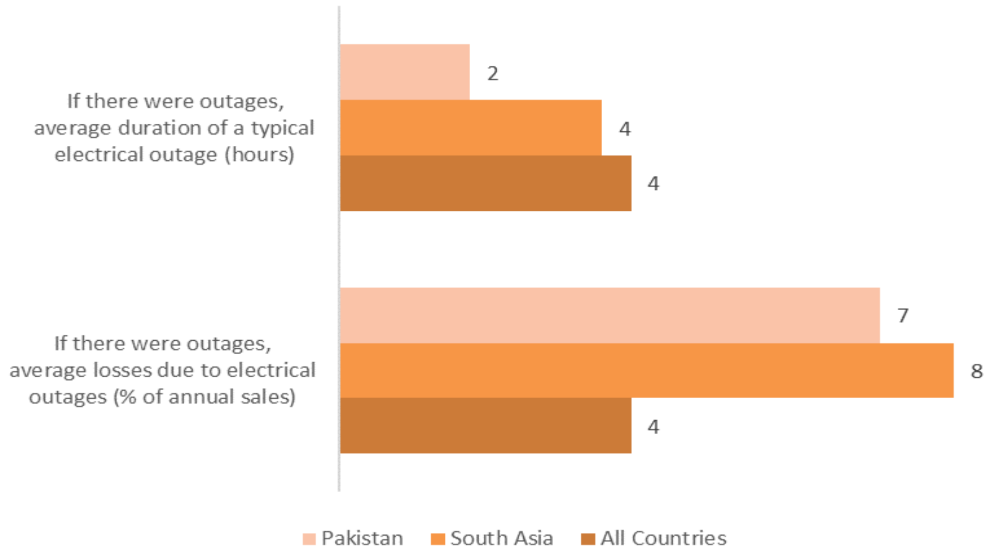


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The significant differences arise when looking at the number of electrical outages faced by these firms in a typical month. On average, firms in Pakistan face outages 22 days per month, which is 74% of the entire month. For every day a country across the world faces electrical outages, firms in Pakistan experience outages in four. Even the number of days for South Asia is almost half as low, at 12%.

While the outages were more frequent in Pakistan than in South Asia or the world, a typical outage did not last as long. The average duration of a typical electrical outage in Pakistan was reported to be 2 hours, almost half the time for South Asia and the world, where firms experienced 4 hours of outage every time electricity went out.

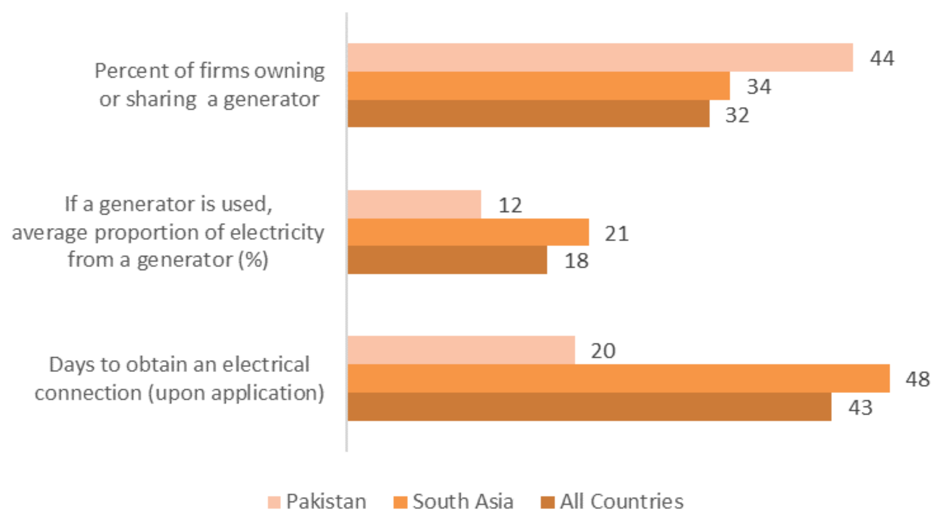
Figure 3: Average losses due to electrical outages (% of annual sales)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Even though the electrical outages were not long in terms of hours, it is possibly their frequent nature that contributed to 7% of losses in annual sales for Pakistani firms. This number is much lower for the world at 4%. However, South Asian firms in general lost 8% of their annual sales to electrical outages, 1% more than Pakistan.

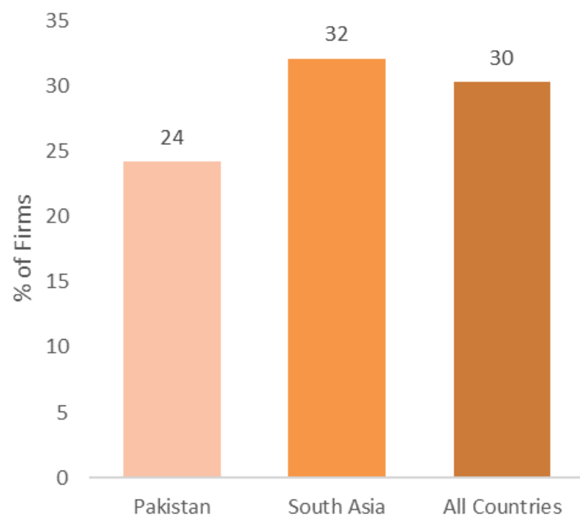
Figure 4: Electrical infrastructure and waiting time for electrical connection



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Perhaps the losses in annual sales due to electrical outages in Pakistan and South Asia are not in proportion to the number of days in a month these outages occur - which is significantly higher for Pakistan - because of the shorter time span of each outage and because 44% of Pakistani firms either own or share a generator, compared to 34% South Asian and 32% firms across the world. The proportion of electricity from a generator for Pakistan is, on the other hand, lower than both South Asia and the world. Only 12% of the electricity is generated through a generator, compared to 21% in South Asia and 18% in the world. The days taken to obtain an electricity connection are also significantly lower for Pakistani firms, less than half the days it takes for South Asian firms and companies around the world. It takes businesses in Pakistan only 20 days to obtain an electricity connection, while South Asian and firms around the world have to wait for 48 and 43 days respectively.

Figure 5: Percent of firms identifying electricity as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

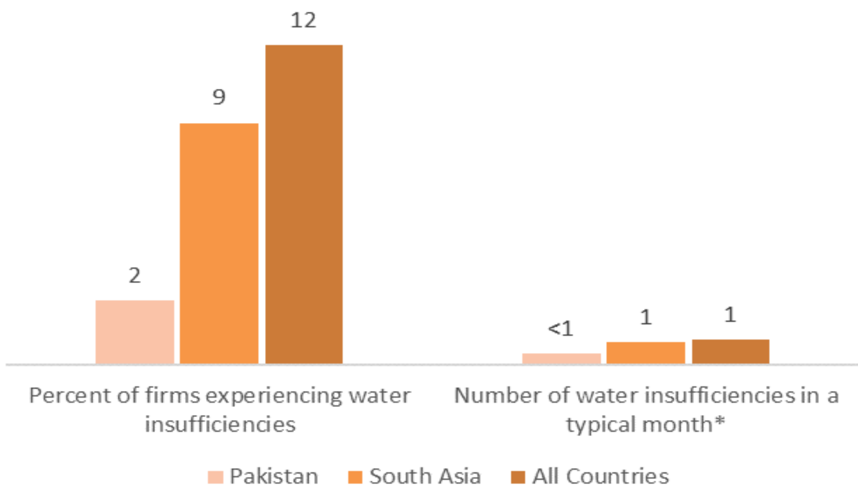
Getting an electrical connection in a smaller number of days and facing electricity outages for fewer hours compared to the rest of the region may be reasons why less firms in Pakistan consider electricity a major constraint (24%), compared to the 32% in South Asia and 30% in all countries. For businesses, especially in the manufacturing industry, access to electricity is vital to ensure efficiency and productivity. It provides a conducive environment for growth and increases business and investor confidence in a country. To enable higher business activity, providence of electricity and frequency of power outages are factors that should be prioritized.

2. Water insufficiencies

2% firms in Pakistan experience water insufficiencies, nearly six times less than the amount of countries around the world (12%). It is also almost 4 times the percentage of South Asian firms that face water inefficiencies. This low figure for Pakistan is also carried forward to the number of water insufficiencies in a typical month, which is less than 1 day per month on average, compared to the one day for South Asia and the world.

This implies that the water supply to industries in Pakistan is more reliable compared to the region and the world as a whole. Availability of water is especially useful for the manufacturing sector where water is used for various processes and is an essential part of the production process.

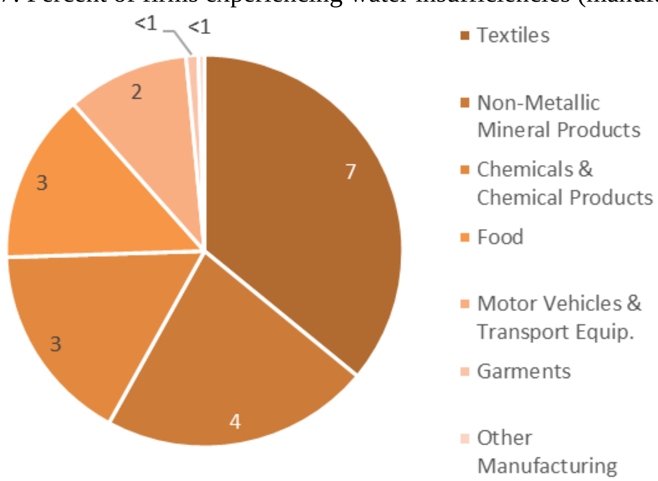
Figure 6: Water infrastructure



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Within the manufacturing sector, however, there is a wide distribution of the proportion of firms experiencing water insufficiencies. The greatest number of firms that report water problems are from the textile industry, at 7%. They are followed by non-metallic mineral products at 4% and chemical and chemical products, along with the food industry, at 3%. It should be noted that the textile, mineral and chemical industries use a large quantity of water in their operations. To ensure that they are carried out uninterrupted, water provision is an important factor.

Figure 7: Percent of firms experiencing water insufficiencies (manufacturing)

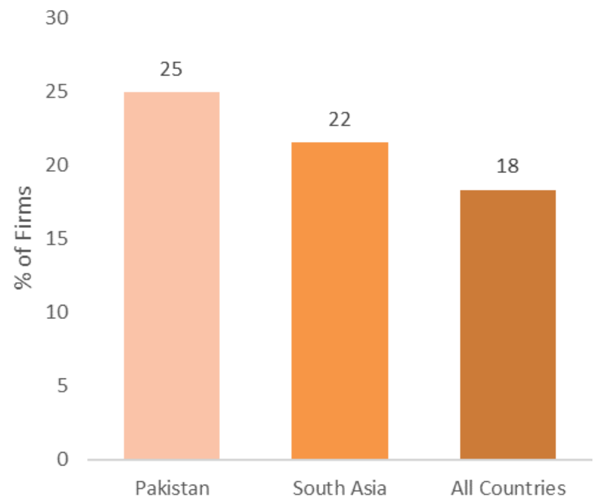


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Transportation as a major constraint

25% of Pakistani firms identify transportation as a major constraint; this is more than both South Asian firms (22%) and firms in all countries (18%). This could be indicative of the roads across the country and the transportation system in general.

Figure 8: Percent of firms identifying transportation as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

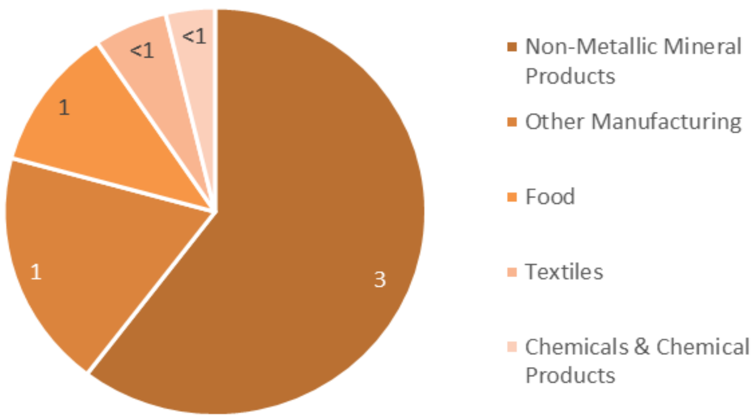
Another factor contributing to firms identifying transportation as a major constraint could be the proportion of products that are lost to breakage or spoilage to domestic markets, which is 1% for Pakistani firms, 2% for South Asian firms, and 1% for the world as a whole. The proportion being lower than South Asian firms could be a positive indication if it is low because of a better laid transportation network.

Figure 9: Proportion of products lost to breakage or spoilage during shipping to domestic markets (%)

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Even though the proportion of products lost to breakage are only 1%, a breakdown of the manufacturing sector, the sector that mostly ships products to domestic markets and those abroad, reveals that a major chunk of the problem lies within the non-metallic mineral product industry, with 3% of their products breaking or getting spoiled during transportation. For the rest of the industries in the manufacturing sector, the proportion is 1% or less. However, it is important to note that minerals are a non-renewable resource and their extraction inflicts serious harm to the environment as well. Breakage of such products could have spillover effects.

Figure 10: Proportion of products lost to breakage or spoilage during shipping to domestic markets (%) - Manufacturing sector breakdown



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Innovation and Technology

Innovation and Technology - Key Findings

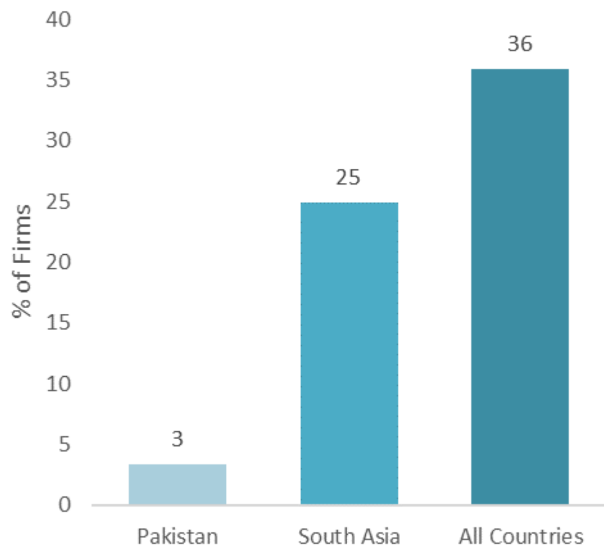
1. **Firms that introduced a new product/service:** Only 3% of firms in Pakistan introduced a new product or service, 8 times less than the regional average (25%) and 12 times less than the global average (36%).
2. **Firms whose new product/service is also new to the main market:** There are no Pakistani firms, out of the 1300 surveyed, whose new product or service is also new to the main market.
3. **Research and development:** Only 2% of the firms in Pakistan spend on research and development. 10 times more firms across the world do so (20%).

1. Percent of firms that introduced a new product/service

Only 3% of firms in Pakistan introduced a new product or service, 8 times less than the regional average (25%) and 12 times less than the global average (36%). The use of innovation in business practices helps make processes more efficient and operations smoother. It allows technological advancement to speed up and enables a business to stay relevant.

With an exponentially lower percentage of firms within Pakistan introducing new products and services, the rate of growth could get impacted. Innovation drives competition and is beneficial for both the suppliers and the consumers, since novel solutions also see a surge in demand and customers' propensity to pay for a product or service.

Figure 1: Percent of firms that introduced a new product/service

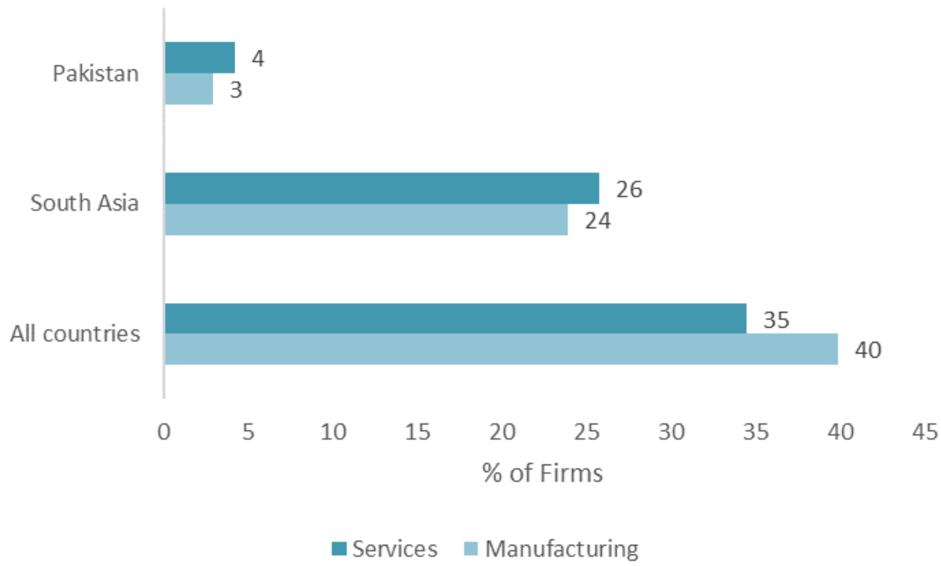


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A sector-wise breakdown reveals that the services sectors of Pakistan and South Asia are both doing better compared to the manufacturing sectors when it comes to introducing new products and services. This could either be because the services sector is absolutely more innovative than its counterpart, or since it is less developed relative to the manufacturing sector, there is more room for innovation. The same analysis could be applied to the services sector of South Asia.

On the other hand, in all countries as a whole, the manufacturing sector is 5% more innovative compared to the services sector, given that the metric for innovation is introducing a new product or service. This could be because manufacturing and retail businesses typically have higher room for growth through diversification and tweaking steps in different processes.

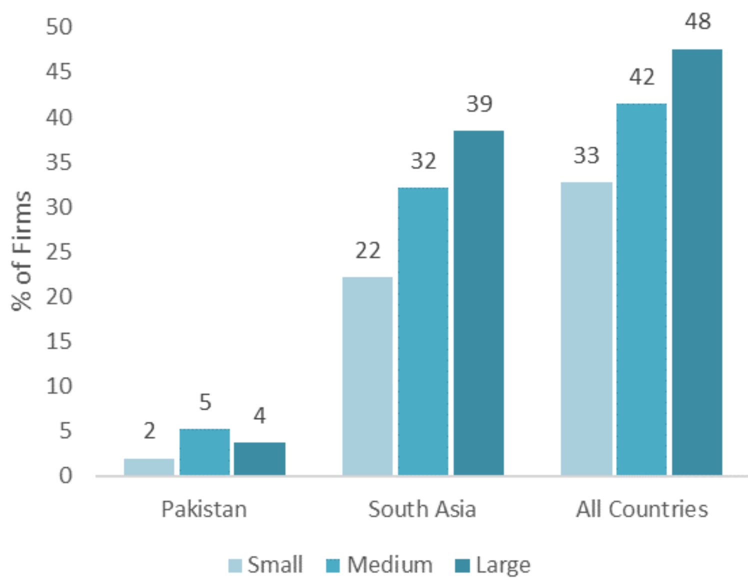
Figure 2: Percent of firms that introduced a new product/service - sector-wise breakdown



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Breaking down the percentage of firms that have introduced a new product or service according to firm size reveals interesting insights. The trend in South Asia and the world shows that large firms are the most innovative (39% in South Asia and 48% in Pakistan) followed by medium firms (32% in South Asia and 42% globally), with small firms being the least innovative (22% in South Asia and 33% firms across the world).

Figure 3: Percent of firms that introduced a new product/service - size-wise breakdown



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

owever, in the case of Pakistan, it is the medium sized firms that are more innovative than both small and large firms. Only 2% of small firms and 4% of large firms have introduced new products or services, but the number is 5% for medium sized firms. This could be an indication of a growing number of medium sized firms that are valuing innovation and new ideas. Such a sign is positive for the economy because as these medium sized firms grow into larger businesses, the impact they will have on innovation will become even greater. Regardless, the percentage of firms in Pakistan engaging in introducing new products and services is still much lower compared to the region and the world, and will require significant time and effort to catch up. Catching up is important to ensure that the products and services the country exports are up to the standards of a growing global technological space and constantly improving standards.

2. Percent of firms whose new product/service is also new to the main market

Figure 4: Firms whose new product/service is also new to the main market

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

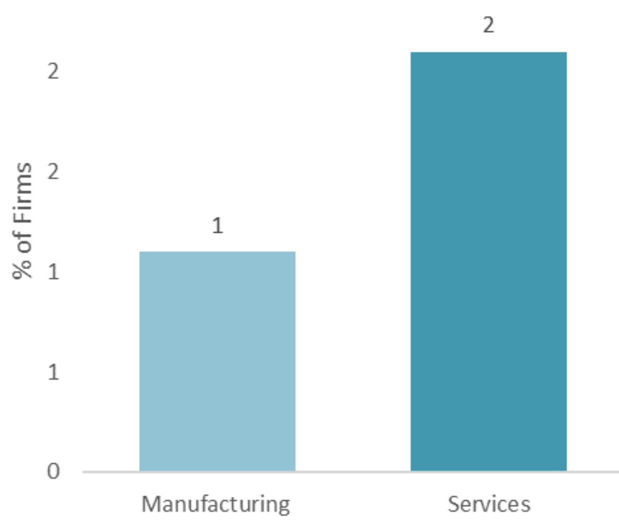
There are no Pakistani firms, out of the 1300 surveyed, whose new product or service is also new to the main market. This means that out of the 3% who have introduced new products or services, none have been novel to the market itself, even if they were new for the company. Compared to Pakistan, there have been 52% such firms in South Asia and 68% in the world. These figures are particularly bleak because even if a firm is innovative in its own capacity, those advances may eventually grow redundant if the business is not contributing novel ideas to the market. Let alone the world, Pakistan is also very behind in the South Asian region as well.

Figure 5: Firms that introduced a process innovation

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Even in terms of firms that introduced process innovations, Pakistan is very behind South Asia and the world in general. In fact, South Asia is ahead of the global average as well, indicating the rapid growth of technology and innovation in the region. Only 2% of the firms in Pakistan introduced process innovation, compared to 32% in South Asia and 27% in the world. This means that for every Pakistani firm that innovates its process, there are 16 firms in South Asia and more than 13 firms in the world doing so. This also adds extra pressure on the firms that are being innovative in the first place.

Figure 6: Firms that introduced a process innovation - sector-wise breakdown



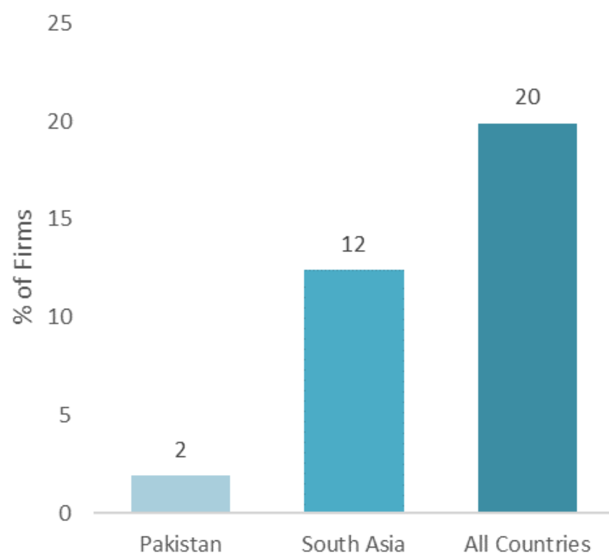
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A sector-wise breakdown of process innovation for firms in Pakistan reveals that even within the small percentage of firms doing so, the proportion of those in the services industry is higher than those in the manufacturing industry. 2% of service-oriented businesses have introduced new process innovations compared to 1% manufacturing businesses. Processes are vital in manufacturing related industries in order to make production more cost-effective while also improving quality. Innovation in this regard gains and retains not only local but also foreign customers. These numbers also imply that the services sector is also strong in terms of innovation, and perhaps with more attention paid to it, could make up for the deficit in innovative practices and processes by the manufacturing sector in the short run.

3. Research and Development

Only 2% of the firms in Pakistan spend on research and development. 10 times more firms across the world do so (20%). South Asia is somewhere in the middle with 12% of firms spending on research and development.

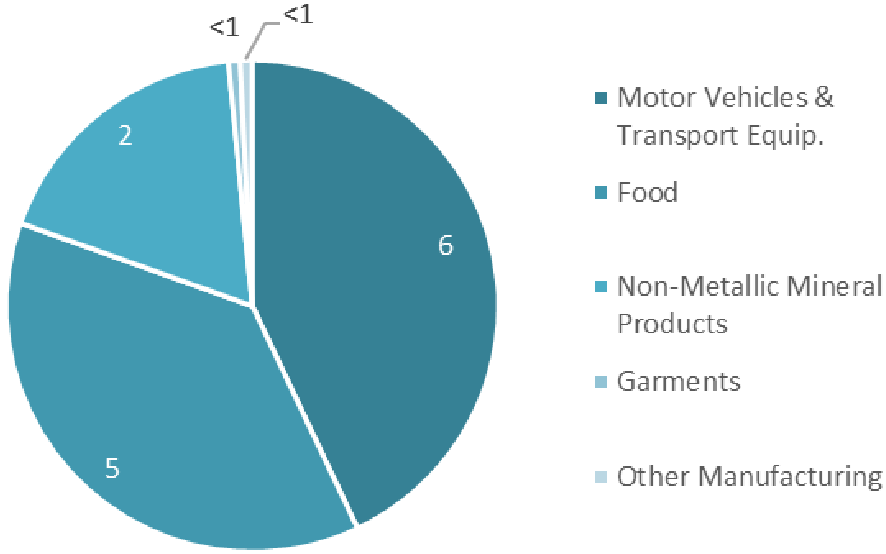
Figure 7: Percent of firms that spend on R&D



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Research and development are aspects of business that may not yield immediate profits and thus might get overlooked, but its long-term benefits can be attested by the percentage of firms worldwide allocating parts of their budgets towards it. Even though Pakistan's economy is a growing one, shifting some focus on research and development early on would ensure a sustained growth in businesses and may contribute to lower costs as new methods are discovered and devised.

Figure 8: Percent of firms that spend on R&D - manufacturing breakdown



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Of the 2% manufacturing firms that invest in research and development, 6% of firms in the motor vehicles and transport equipment industry claim to do so, followed by 5% in the food industry. These are positive signs as investment in the transport industry could lower transport costs as well as wear and tear on products. Similarly, new innovations and research in the food industry has the potential to mitigate health risks that may arise and can bring Pakistan's food industry to a position where it may start exporting as well.

Firm Performance

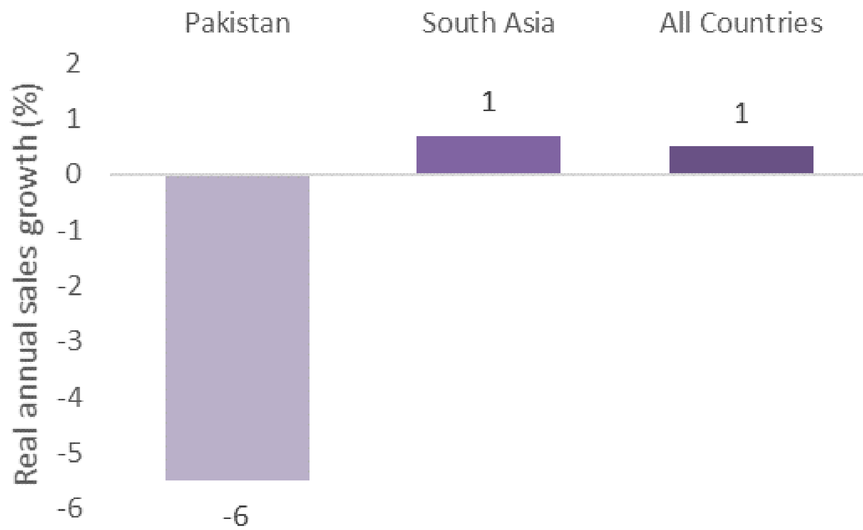
Firm Performance - Key Findings

1. **Real annual sales growth:** Businesses in Pakistan recorded a -6% growth in real annual sales in 2022.
2. **Employment and labor productivity:** While employment in firms in Pakistan has increased by 5%, real annual labor productivity has declined by 8%.
3. **Percent of firms buying fixed assets:** Only 5% of firms in Pakistan are buying fixed assets; this is 8 times less than the rest of the world (40%).

1. Real annual sales growth

Businesses in Pakistan recorded a -6% growth in real annual sales in 2022. This means that comparing the sales to the last fiscal year and three fiscal years earlier yielded a decrease in the growth rate of sales by 6%. Since the data is computed on real annual sales, external effects like inflation are accounted for. The growth rates for South Asia and all countries globally were approximately 1%. Even though their real sales are not increasing by a very large amount, a positive value indicates that sales are growing nonetheless. In the case of Pakistan, a negative growth rate means that sales have not only decreased, but they have decreased enough to reverse the rate of growth.

Figure 1: Real annual sales growth (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A breakdown of the annual sales growth rate by firm size reveals interesting insights both for Pakistan and on a comparative level with South Asia and the rest of the world. For small firms, while the growth rate in Pakistan is -6%, it is also negative in South Asia as a region at -1%. Even for the world as a whole, the real annual growth rate in sales is close to zero for small firms. This could indicate a trend where smaller firms, before they establish themselves and reach a sustainable level of growth, suffer in terms of sales. Since this survey was computed for 2022, just after Covid 19, it is possible that the smaller firms suffered more because of lack of security and alternatives.

It is also interesting to note that large firms in South Asia suffered more than firms in Pakistan, in terms of their annual sales growth. Their growth rate decreased by 3% compared to the 2% of Pakistan, while that of the world as a whole remained positive at 2%. This could mean that large firms in Pakistan are better equipped to deal with shocks compared to those in South Asia as a region.

While small and large firms in South Asia have faced a negative growth rate, the medium sized firms in the region have done the best in reference to Pakistan and even the world, showing a 4% growth rate compared to -6% for those in Pakistan and 2% for all countries.

Figure 2: Real annual sales growth (%) - by firm size

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The manufacturing sector in Pakistan has seen a higher decrease in annual sales growth compared to South Asia and the world. While growth has decreased by 7% for the manufacturing firms in Pakistan, they have increased for similar firms in South Asia by 4% and for the rest of the world, by 2%.

Compared to the manufacturing sector, the performance of the services sector in Pakistan has been better, despite the negative growth rate in sales. Real annual sales for the services sector in Pakistan decreased by 2%, while service-oriented businesses in South Asia saw 1% decrease. Even on a global scale, the increase in annual sales has been close to zero.

For Pakistan, this implies that the services sector has been better receptive to shocks and has not taken as great a hit as the manufacturing sector. This is a positive takeaway, indicating that perhaps more investment and favorable policies for the services sector could strengthen it further. Similarly, these distinctions will allow policymakers to probe further into the obstacles that are reducing the performance of the manufacturing sector, and if internal problems, devise plans to mitigate them.

Figure 3: Real annual sales growth (%) - by sector

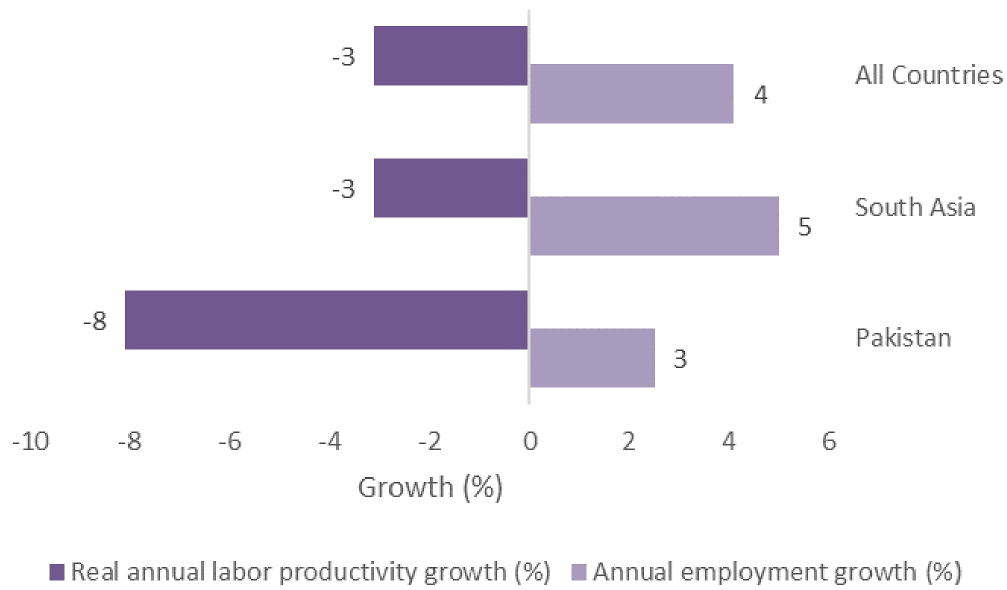
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

2. Employment and labor productivity

While employment in firms in Pakistan has increased by 5%, real annual labor productivity has declined by 8%. Labor productivity has also shown a decreasing trend for the comparative categories of South Asia and the world, having declined by 3% for each region, it has decreased by almost triple the amount for Pakistan. Granted that economies in 2022 were recovering from the shocks brought about by Covid 19, a decrease of this magnitude may have other underlying structural and procedural basis.

The growth in the rate of annual employment for both South Asia (5%) and the world (4%) is more than the decrease in annual labor productivity (3%). On the other hand, the opposite is true for firms in Pakistan. Even though their employment rate is growing, the rate of productivity is decreasing at a greater rate. To make the workforce more efficient and reduce losses and costs, it is important for employment to have a more proportional relationship with productivity. Potential reasons for this not being the case could be inefficient utilization of labor, or a gap in labor qualifications and training.

Figure 4: Annual employment growth rate and real annual labor productivity growth



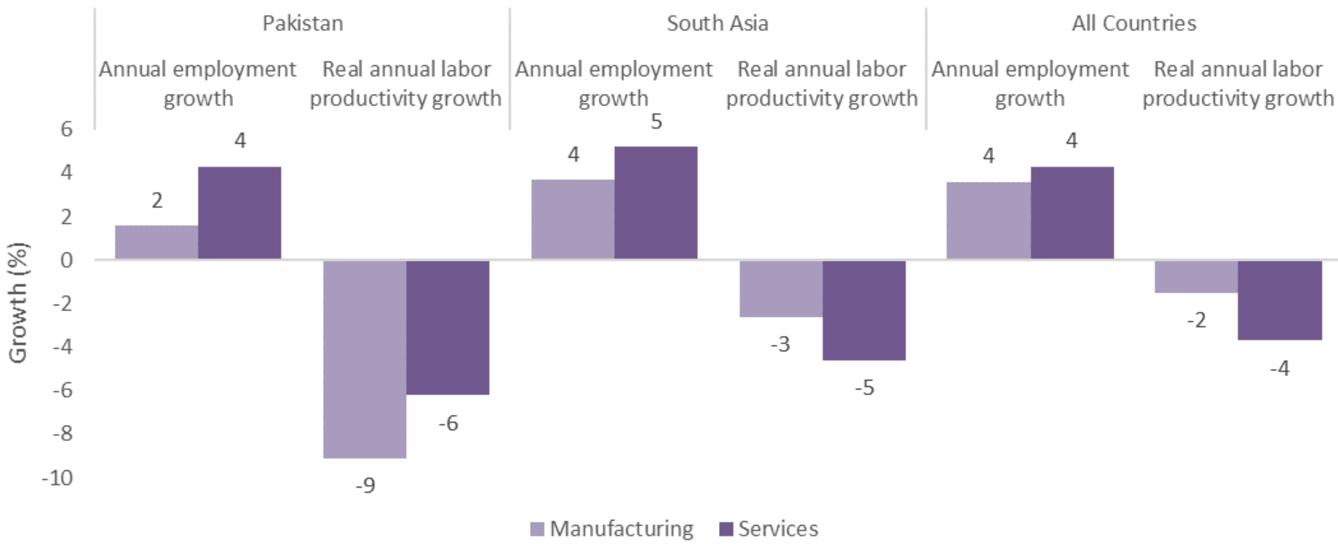
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Breaking down the employment and labor productivity growth rates into sector-wise distinctions shows that across all zones, the services sector has had higher growth in annual employment. This is intuitively explained as well, since the services sector is more people-driven than the manufacturing sector. In Pakistan and all countries combined, services saw a 4% increase in annual employment, while this rate was 5% for South Asia.

When looking at annual labor productivity, it was also the services sector for South Asia and the world that saw a sharper decline than the manufacturing sector in these regions. Labor productivity declined by 5% in South Asia and 4% in the world for the services sector, compared to a 3% and 2% decline, respectively, in the annual productivity growth rate for the manufacturing sector. However, for Pakistan, the productivity rate in the manufacturing sector declined more than the services sector - a 9% decrease compared to a decline of 6%.

While these numbers alone cannot determine the causes of decreasing labor productivity despite an increase in the annual employment for any region or sector, they provide significant foundations for further investigations into what might be causing these decreases. There could be problems in the quality of the labor coming into the firms or how they are utilized by the firms once they are hired, which could be worth exploring.

Figure 5: Annual employment growth rate and real annual labor productivity growth - by sector



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Isolating labor productivity growth and looking at it by firm size shows that for Pakistan, small firms have the highest decrease of 8%, followed by South Asia and the world at about 3% each. Medium sized firms in Pakistan are a subcategory across regions and firm sizes that have seen the most decrease in real annual labor productivity, the rate decreasing by 10%. Productivity in such firms has only decreased by approximately 4% in South Asia and across the world.

On average, large firms have seen the least decrease in real annual labor productivity, but the rate has decreased for them nonetheless. Large firms in Pakistan actually fared better than those in South Asia, their productivity decreasing by 4% compared to 6% of the region. The overall decrease for all countries for large firms is also the lowest, at 2%.

For Pakistan, the decrease in labor productivity in small and medium sized firms is more concerning, since it is two times higher than that for large firms. This difference may be attributed to the cost of hiring and retaining skilled labor, the expenses and resources required for training them, and the capital and infrastructure needed to allow them to be productive. Another factor could be the quality and skill level of the labor coming to these firms in the first place. If the labor lacks the necessary qualifications, its productivity would be low during the period it is receiving training. It can be expected that such decreases in productivity will be made up for once the workers have gained expertise.

Whatever the reason for low labor productivity compared to the region and the world, both private companies and policymakers could help contribute by catering to the obstacles and factors in the business environment that are not conducive to growth.

Figure 6: Real annual labor productivity growth (%) - by firm size

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

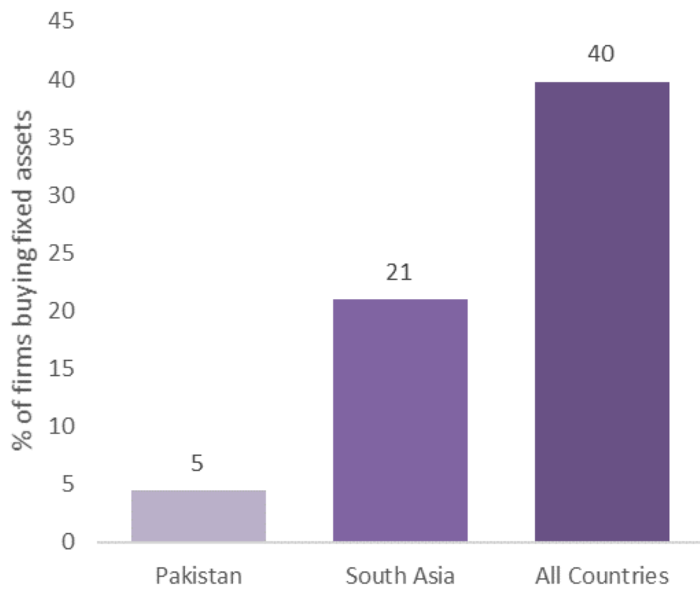
3. Percent of firms buying fixed assets

Only 5% of firms in Pakistan are buying fixed assets; this is 8 times less than the rest of the world (40%). South Asia is in the middle with 21% firms buying fixed assets. This means that for a single Pakistani firm that buys fixed assets, there are 4 in South Asia and 8 across the world that do so.

A fixed asset is a long-term tangible property or piece of equipment that a company owns and uses in its operations to generate income. Having more fixed assets implies that a company has additional sources of income that it can utilize if the need arises; examples include land, buildings, heavy machinery, vehicles and IT equipment. Assets like land and buildings increase capacity for production, machinery adds to the capital stock, while IT equipment and similar technological assets help companies stay efficient and innovative.

One explanation for the low proportion of firms in Pakistan purchasing fixed assets could be that larger firms have already invested in them in the previous years while smaller firms do not have the financial means to purchase them yet. Another reason could be that firms in 2022 were recovering from Covid 19 and instead of buying fixed assets, were more focused on regaining lost ground in terms of immediate sales and profits.

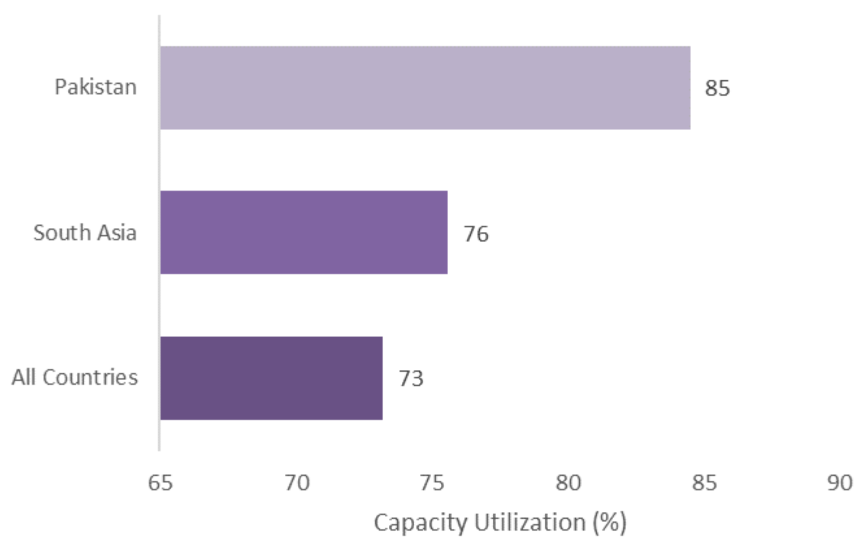
Figure 7: Percent of firms buying fixed assets (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

A concept similar to fixed assets and relating to capital is that of capacity utilization. It is the manufacturing and production capabilities that are being utilized by a firm at any given time; the relationship between the output produced with the given resources and the potential output that can be produced if capacity was fully used.

Figure 8: Capacity utilization (%)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

For firms in Pakistan, the rate of capacity utilization is 85%, higher than both South Asia and the world, which are at 76% and 73% respectively. This means that of the resources present to these firms, those in Pakistan are, at any point, using 85% of them.

This is generally considered a measure of efficiency and is a positive sign. However, it is important to note that firms in Pakistan are also on the lower rung of investment in fixed assets, with only 5% of them buying fixed assets as of 2022. This could mean that one reason why the capacity utilization for Pakistan could be high is that there is low capacity to begin with. If this is the case, then investing in more fixed assets like land and machinery could be a way to cater to this problem.

Access to Finance

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Access to Finance - Key Findings

1. **Percent of credit constrained firms:** There are three fully credit constrained firms in Pakistan (41%) for every such firm in the world (13%). In Pakistan, there are more smaller firms that are fully credit constrained (48%) than medium (34%) or large sized firms (25%).

2. **Use of financial services:** For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022.

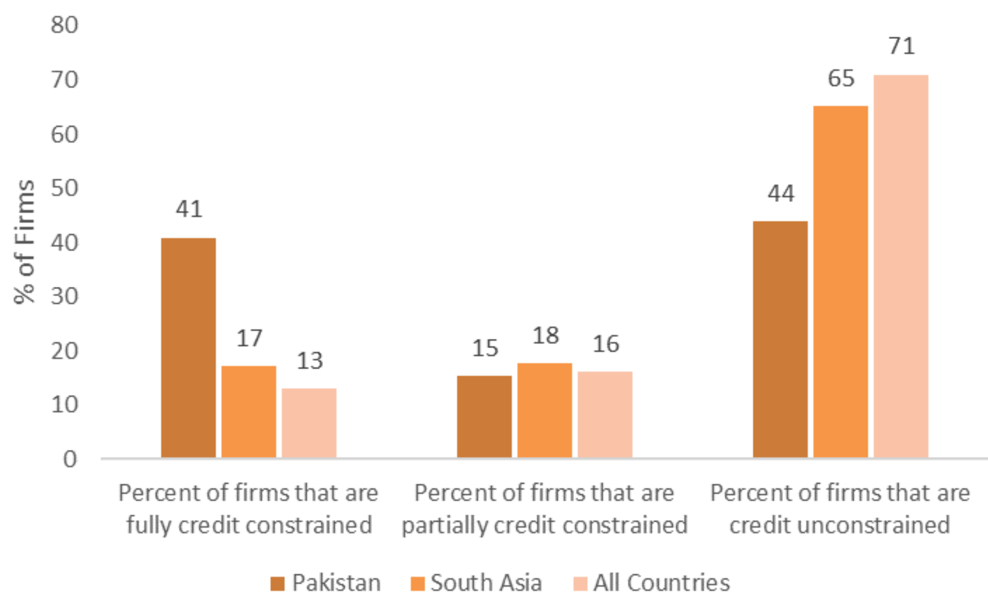
3. **Sources of financing:** Only 1% of the investment in firms in Pakistan is financed by banks, compared to the global average of 14%.

1. Percent of credit constrained firms

Credit constraints, as the name suggests, are restrictions that may hinder firms from borrowing against future income. They can arise because of many factors, internal and external; for example, firms with poor investment and growth opportunities may have a higher probability of being credit constrained.

There are three fully credit constrained firms in Pakistan (41%) for every such firm in the world (13%). South Asia as a region is also faring much better, with nearly half as many credit constrained firms as Pakistan (17%). According to the World Bank definition, these are firms that—in the fiscal year 2021-22—did not use external sources of finance for either working capital or investments, applied for a loan but did not have an outstanding loan disbursed at the time of the survey or did not apply for a loan due to any reason other than having sufficient capital. This highlights the stagnancy in the financing of firms in Pakistan in 2021. Some of this can be attributed to the aftermath of Covid 19, however, the large difference between Pakistan and the rest of the world indicates that there are other factors at play as well.

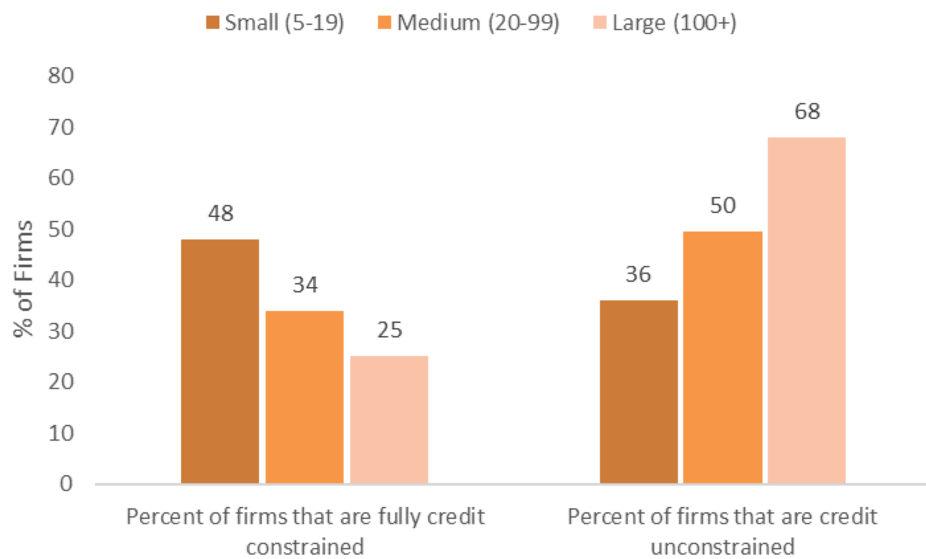
Figure 1: Firms with varying levels of credit constraints



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The next group is firms that are partially credit constrained, of which 15% Pakistani firms are a part of. They are defined, by the World Bank as the firms that had access to external sources of finance but did not apply for a loan due to any reason other than having sufficient capital or did apply for a loan but the application was rejected. 16% global and 18% of South Asian firms fall into this category, almost the same as Pakistan. However, Pakistan has a lot less firms that are credit unconstrained (44%) compared to South Asia (65%) and the world (71%). These are firms that show no cash flow sensitivity and have smoother access to finance.

Figure 2: Firms with varying levels of credit constraints - by firm size



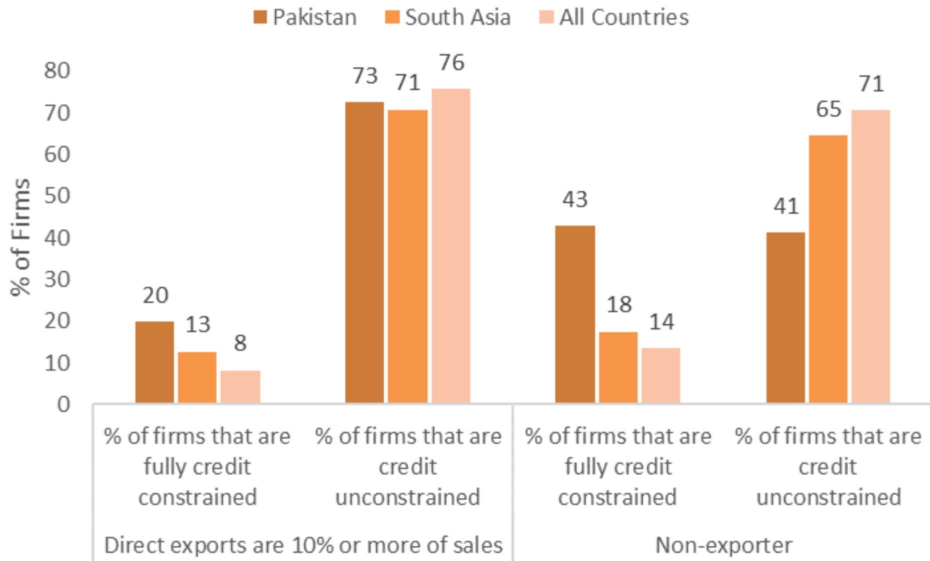
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Looking at the levels of credit constraints by firm size reveals that how large the firm is plays a significant role in determining its access to finance. There are more smaller firms that are fully credit constrained (48%) than medium (34%) or large sized firms (25%). Similarly, the percentage of large firms in Pakistan that are credit unrestrained (68%) is not very different from the percentage for South Asia, which is 70%. However, there are almost half as many small firms, at 36%, that are unconstrained in terms of credit. This could be indicative of barriers to entry or lack of business confidence, that may be hindering smaller and medium sized firms from getting adequate financing.

Within firms that are exporters, almost as many are credit unconstrained in Pakistan (73%) than are in South Asia or the world. 71% of South Asian and 76% of the global exporting firms fall into this category. However, the percentage of exporting firms who are fully credit constrained in Pakistan (20%) are still higher than those in South Asia (13%) and the world (8%), highlighting a gap between similar types of firms across the region.

On the other hand, for firms that are non-exporters, Pakistan has almost double the proportion of fully credit constrained firms (43%) compared to South Asia (18%) and even more than the world (14%). Similarly, there are far less Pakistan firms that are credit unconstrained, at 41%, compared to the region (65%) and the world (71%).

Figure 3: Firms with varying levels of credit constraints - by exporter type

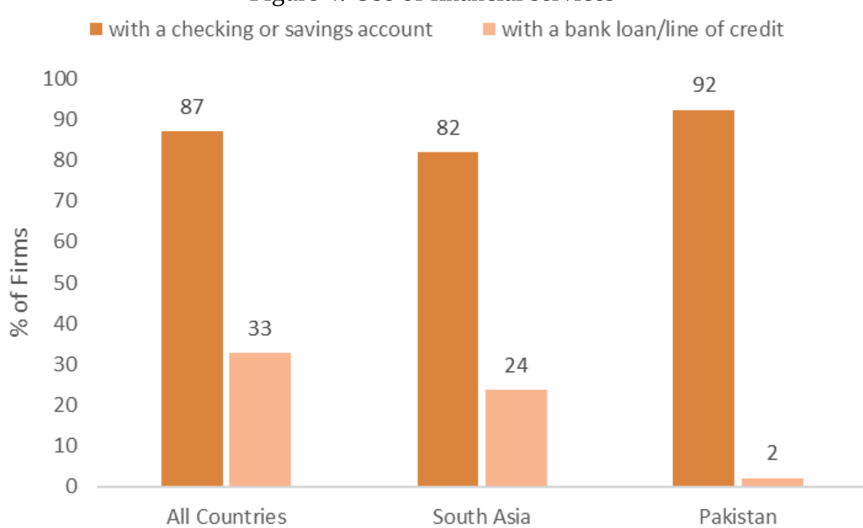


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

2. Use of financial services

For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). While the proportion of firms with checkings or savings accounts is high throughout the sample, ranging between 82-92% for Pakistan, South Asia and the world, firms in Pakistan severely under-rely on bank loans.

Figure 4: Use of financial services



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Bank loans are important for firms to grow and expand. They allow an injection into the cash flow of a business through verified and legal means. Availability of credit permits funding projects that otherwise would be constrained by each firm's limited pool of funds. With so few firms in Pakistan having an established line of credit or using bank loans, they are either stagnant in their cash flows or are utilizing informal means of acquiring finances.

Figure 5: Firms with a bank loan/line of credit

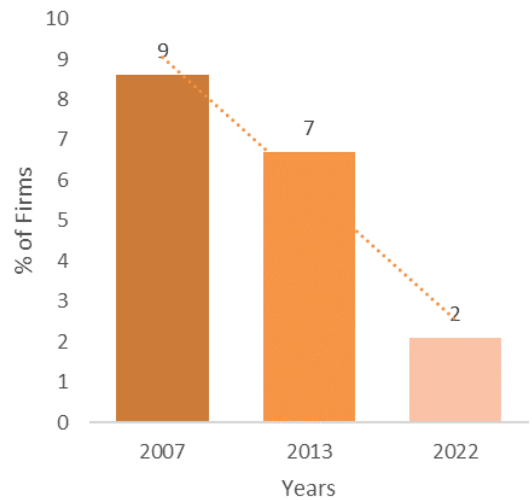
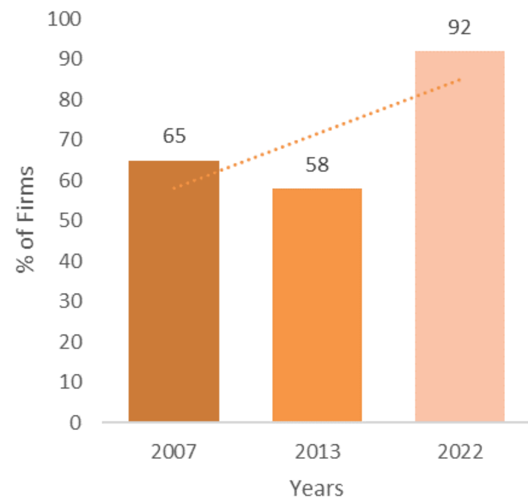


Figure 6: Firms with a checking/savings account



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Analyzing trends of the past 15 years reveals interesting insights. The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022. On the contrary, the proportion of firms with checking or savings accounts has increased from 65% to 92%. This implies that it might have become easier for firms to open accounts and finance immediate needs, but the uptake of loans and maintaining a line of credit, which is useful for handling liquidity or cash flow volatility challenges that companies may face, has decreased. Diving deeper into why firms in Pakistan have been less inclined to take loans from banks, and whether the constraint is from the banks' end or the firms' end, could be a useful exercise from a policy perspective to understand how to increase this rate for the future.

Figure 7: Firms whose recent loan application was rejected

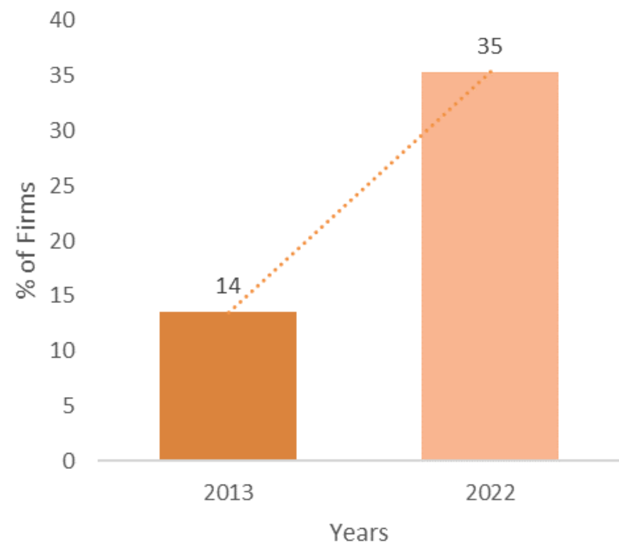
Economy	% of firms whose recent loan application was rejected
All Countries	10
South Asia	20
Pakistan	35

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

One explanation of the declining uptake of loans can be sought in the percentage of firms whose loan applications get rejected. Filing for a loan rejection can be a tedious and time-taking process. If more applications result in rejections, it can hamper a business's confidence in the banking system. On the other hand, it is also possible that the firms applying for loans are unable to establish their credibility to satisfy the banks, thus resulting in rejections. Whatever the reason, 35% of firms in Pakistan reported that their recent loan application was rejected, which is more than three times higher than the world average and almost twice as high as the percentage for South Asia.

Even looking at the trend for Pakistani firms whose loan applications got rejected, it can be seen that compared to 2013, a significantly higher amount of loans got rejected in 2022; more than twice as many. This can be a contributing factor to why the percentage of firms taking bank loans has decreased over the years for Pakistan.

Figure 8: Firms whose recent loan application was rejected - Pakistan



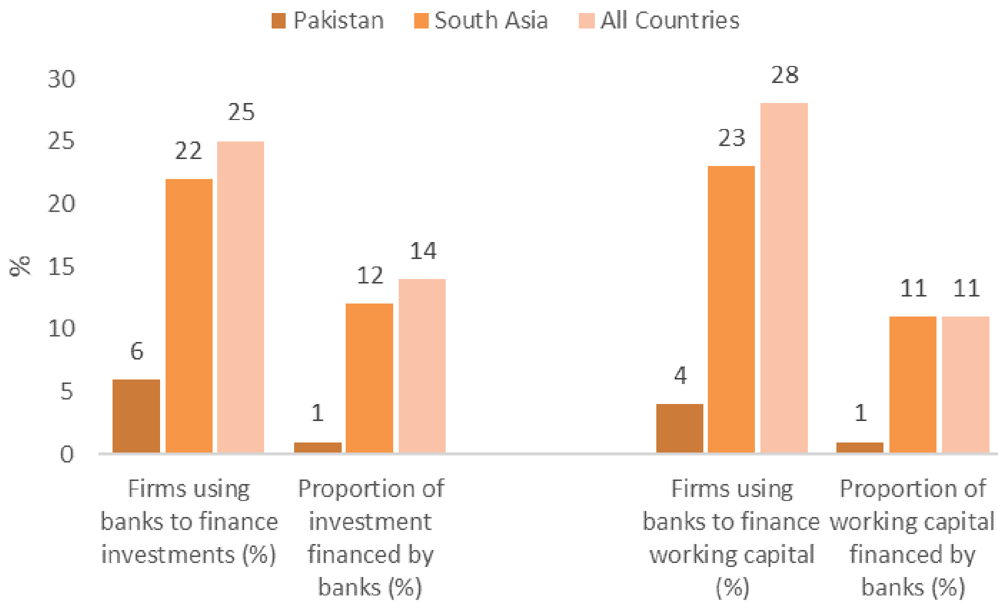
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Sources of financing

Only 1% of the investment in firms in Pakistan is financed by banks, compared to the global average of 14% and the regional average of 12%. For each firm in Pakistan using banks to finance investment, there are 4 in the world that are doing so. Put in numbers, only 6% of Pakistani companies use banks to finance investments, compared to 22% in South Asia and 25% in the world. This would also explain why the proportion of investment financed by banks is only 1%. Even fewer companies in Pakistan use banks to finance working capital (4%) while the averages for South Asia (23%) and the world (28%) remain as high as those who use banks to finance investments. Similarly, only 1% of the working capital is financed by banks in Pakistan.

his number is 11% for both South Asia and the world. It is important to reach the cause, whether arising from the firms' end or the banks', in order to bridge this gap.

Figure 9: Sources of financing

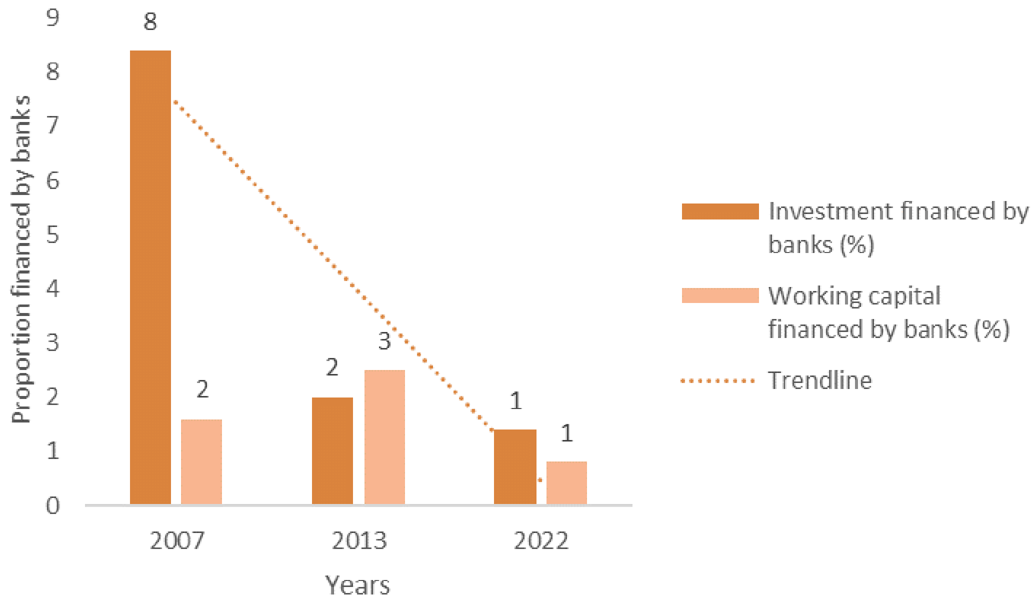


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Looking at the trend for firms in Pakistan over the years and how their number has varied in terms of financing, it can be seen that the proportion of investment in firms financed by banks has rapidly decreased over the past decade and a half. In 2007, 8% of the investment was financed by banks, a number that drastically dropped to 2% in 2013 and then 1% in 2022. This fall could be attributed to both internal and external factors; more in-depth analysis into the policies that might have led to this decrease in investment financing by banks can pave the way for measures that could increase firms' confidence in banks, and vice versa.

On the contrary, the trend for percentage of working capital being financed by firms has stayed consistent over the years, with the proportion deviating between 1 and 3%. This could also be looked into in order to ascertain the causes that are keeping the rate persistently low and what could be done to increase this uptake. It is worth noting, however, that the firms surveyed in the World Enterprise Survey do not contain those from the agricultural, fishing and mining sector. It may be that farmers and fishing companies are more prone to using banks to finance investment and capital, which is not captured here. Therefore, these trends cannot be generalized to the entire economy.

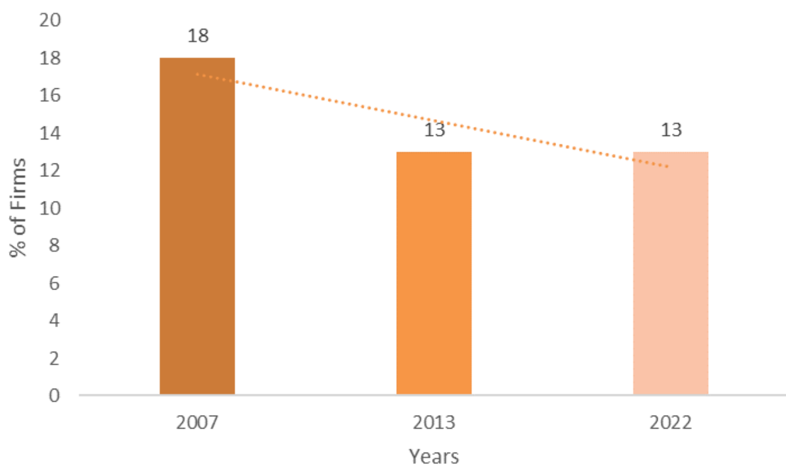
Figure 10: Sources of investment - trend for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Despite the downward trends of access to finance particularly in relation to funding from banks, the percentage of Pakistani firms that consider access to finance a major constraint has shown a decreasing trend over time, falling from 18% in 2007 to around 13% in 2022. It would be interesting to explore whether this number has gone down because more pressing concerns have emerged over the years, or because the financing situation for firms has gotten better.

Figure 11: Access to Finance as major constraint - trend for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Informality

Informality - Key Findings

1. **Percent of firms competing against unregistered or informal firms:** 45% of firms in Pakistan find themselves competing against unregistered or informal firms.

2. **Firms' registration status upon starting business:** 58% firms claim to have been formally registered when they started operations in the country; this is almost 20% lower than the South Asian and 30% lower than the world averages.

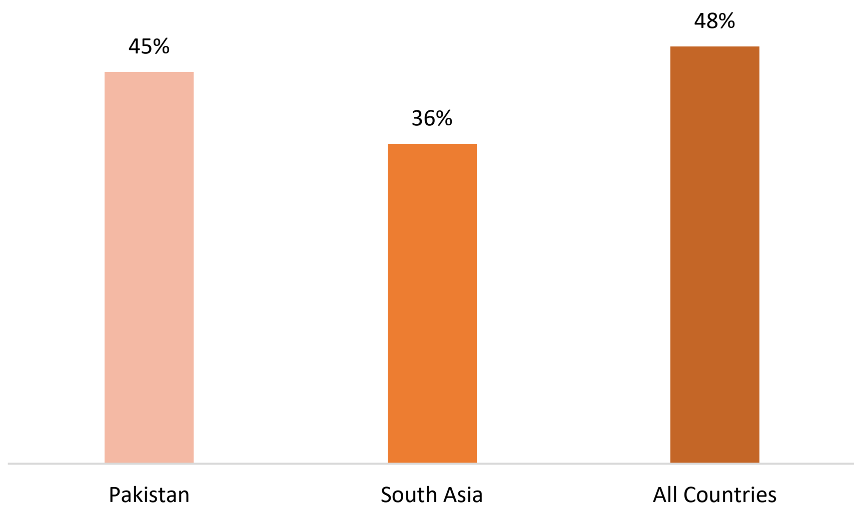
3. **Trend Analysis:** Looking at the trend analysis reveals that in the 9 years since 2013, the percentage of firms that formally got themselves registered before starting operations has declined by 22%, from 80% in 2013 to 58% in 2022.

1. Percent of firms competing against unregistered or informal firms

45% of the firms in Pakistan find themselves competing against unregistered or informal firms. This is higher than the average for South Asia, which is 36%, but lower than the global average of 48%.

According to the Small and Medium Enterprise Development Authority (SMEDA), more than 40% of Pakistan's GDP comes from the informal sector. In that case, it makes sense for almost half of the firms surveyed to claim that they are competing with unregistered or informal firms. Since those surveyed were firms from the manufacturing or services industries, the existence of unregistered firms can be a threat to the business of those registered companies who have to pay hefty taxes while the former is exempt from them.

Figure 1: Percent of firms competing against unregistered/informal firms



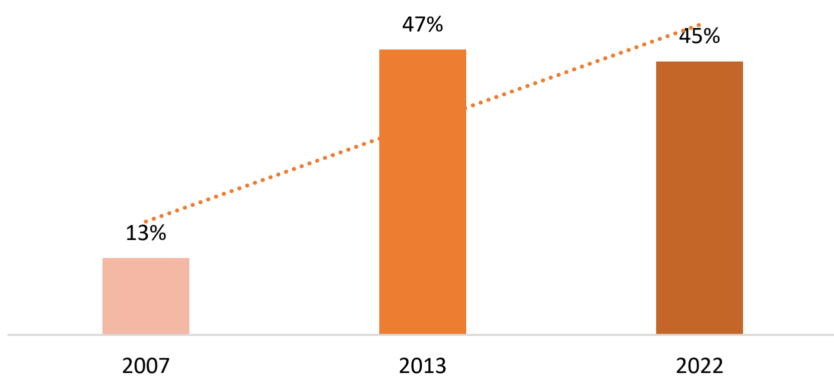
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

While the proportion of firms in Pakistan that compete against unregistered firms may not be as alarming when compared to the figures for South Asia and the world, trend analysis of Pakistan's numbers over the years reveals that there has been a dramatic rise in firms that report this problem.

Only 13% of the companies surveyed in 2007 claimed to have been competing against unregistered firms. This rose by 34% within the 6 years to 2013, where the reported figure was 47%. While it decreased to 45% in 2022, a 2% decrease in 9 years may be too slow.

This poses interesting questions for policymakers, since the sheer size of the informal sector could disincentivize investors or could tempt new entrants to remain unregistered. In that case, the loss incurred to the economy would be in the form of taxes, with a potential increase in unethical practices by businesses since by remaining unregistered, they get the chance to sidestep direct oversight.

igure 2: Trendline for Pakistan– firms competing against unregistered/informal firms

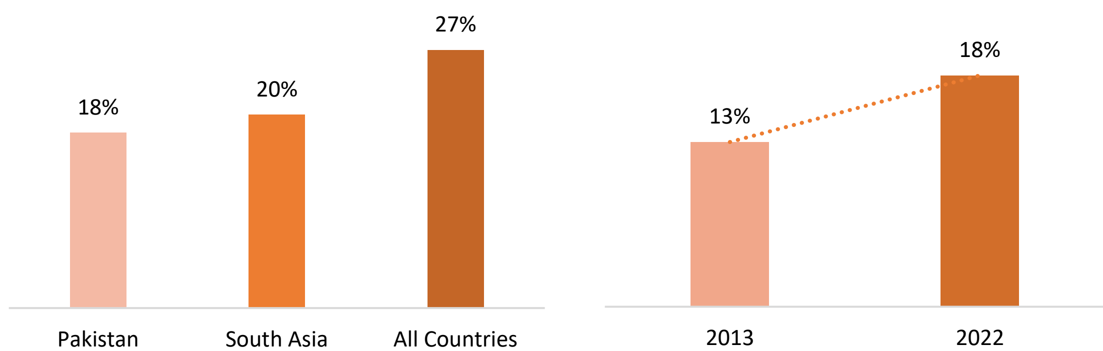


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

While the number for firms in Pakistan that are competing with those in the informal sector is high, it is interesting to note that the percentage of firms identifying the practices of competitors in the informal sector as a major constraint are the lowest across the averages for South Asia and the world. 18% of the firms in Pakistan identify it as a major constraint, compared to 20% in South Asia and 27% in the world.

This is an intriguing finding; it would be useful to look into the reasons for why, despite the increase in competitors in the informal sector, not a lot of firms in Pakistan consider it a major threat. One reason could be that while the informal sector itself is large, the size of the individual firms in it is not large enough, or their market shares not threatening enough for their practices to be a major constraint for registered firms.

Figure 3: Firms identifying practices of competitors in the informal sector as a major constraint – Trendline for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

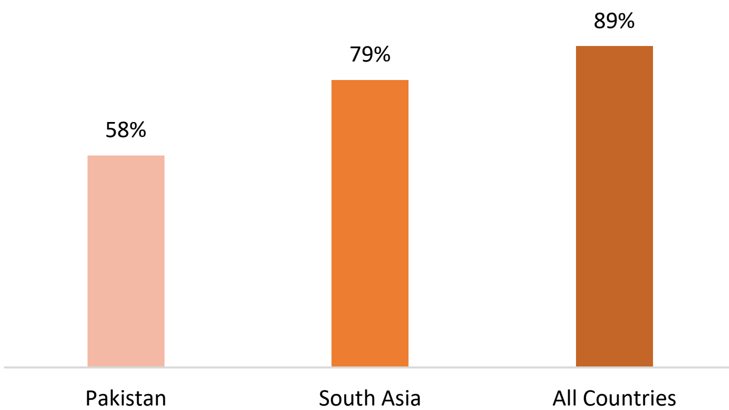
That being said, firms in Pakistan that find the informal sector practices a major problem have increased over the past 9 years, from 13% in 2013 to 18% in 2022. This indicates that while the number of firms for Pakistan is lower than the regional and global averages, it is a concern that is slowly growing over time within the country. It would be useful to cater to it now, from a policy point of view, rather than waiting for it to become a much larger issue.

2. **Firms' registration status upon starting business**

58% firms claim to have been formally registered when they started operations in the country; this is almost 20% lower than the South Asian and 30% lower than the world averages.

Lesser firms registering themselves before starting business indicates that there is not a lot of legal pressure on them to do so. Lack of awareness and access to resources when starting out could also be reasons that attribute to the low registration numbers. If companies are aware that they can start operations without first formally registering themselves, it is more of an incentive for them to not get registered later on as well.

Figure 4: Firms formally registered when they started operations in the country



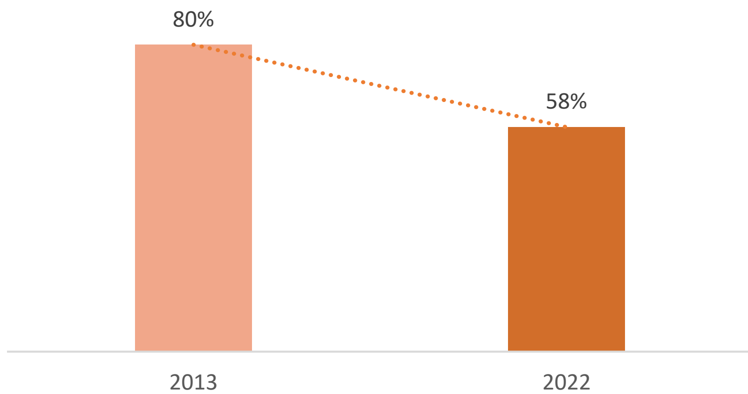
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The 58% stands out even more when compared to the figures for Pakistan over the years. Looking at the trend analysis reveals that in the 9 years since 2013, the percentage of firms that formally got themselves registered before starting operations has declined by 22%, from 80% in 2013 to 58% in 2022.

It would be interesting to explore the reasons behind this steep decline; whether avoiding taxes is the only major factor or if there are also perks that come with being unregistered that firms would not get otherwise.

Another facet of the problem is also the level of awareness and the barriers businesses face when trying to register firms. If it takes multiple visits to an office or if the process is tediously long, new business owners might prefer to stay unregistered. Offering some type of incentive to firms that start operations as registered businesses, and warning them of the dangers of not doing so, could perhaps drive up the numbers. Regardless of the type of policy, the decline in the number of firms starting out as registered businesses for Pakistan, and its comparison with the regional and global averages, indicates a potential problem that requires looking into.

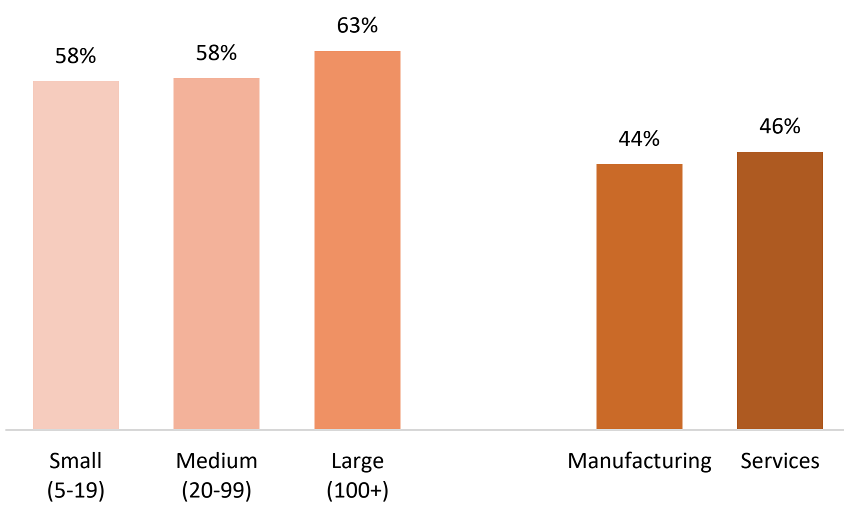
Figure 5: Firms formally registered when they started operations in the country – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The percentage of firms that started operations as an unregistered business, for Pakistan, remained mostly consistent across firm sizes and sectors. Within firms of different sizes, more large firms (63%) claim to have gotten registered compared to small and medium firms (58%). Within the sectors, 46% of those in the services sector reported that they began operations as formally registered firms, while 44% in the manufacturing sector reported so.

Figure 6: Firms formally registered when they started operations in the country – By firm size and sector (Pakistan)



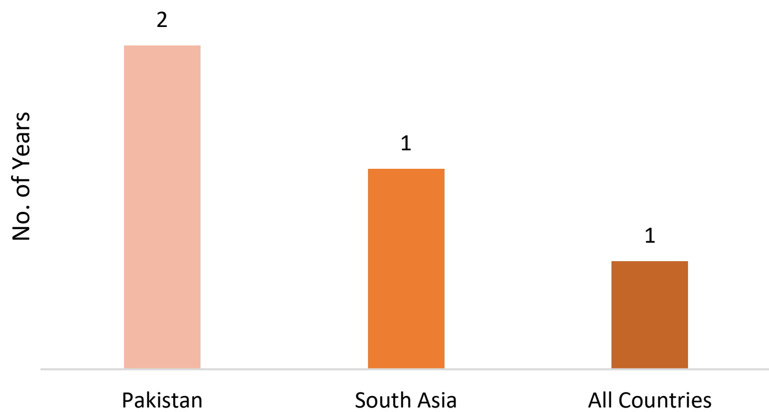
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Years operated without formal registration

Firms in Pakistan report to have operated 2 years without a formal registration. This is higher than South Asia and the world, where firms operated without a registration for only 1 year.

While the difference does not seem too significant in objective terms, it is important to note the opportunity cost of an additional year of remaining unregistered in terms of forgone taxes and potential illegal or non licet practices.

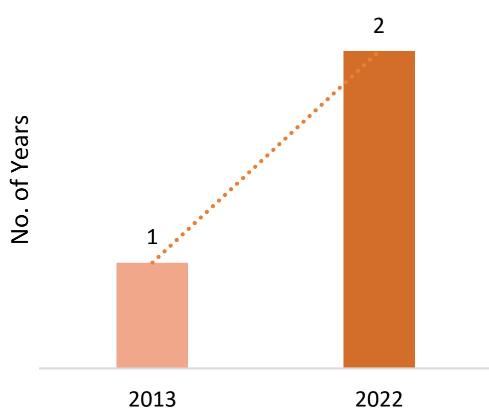
Figure 7: Years operated without formal registration



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Analyzing the trend for Pakistan reveals that in 2013, firms reported operating without formal registration for 1 year, which has increased to 2 years by 2022. The reasons for this could be worth exploring; have the firms' incentives to register themselves decreased over time or is registration not encouraged like it was a decade ago?

Figure 8: Years operated without formal registration- Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Corruption

Corruption - Key Findings

1. **Corruption as a business constraint:** In 2022, 32% of Pakistani firms identified corruption is a major business constraint. This number has decreased from 59% in 2007 and 68% in 2013.

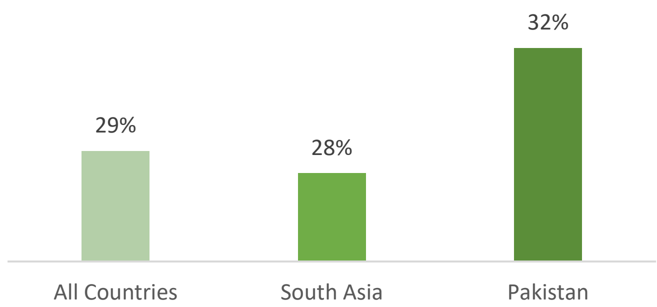
2. **Prevalence of corrupt practices:** Approximately 22% of enterprises in Pakistan assert that public officials anticipate receiving presents to facilitate the accomplishment of tasks or objectives.

3. **Corruption in different sectors:** 16% of firms in Pakistan spanning both the manufacturing and services sector report experiencing at least one bribery request.

1. Corruption as a business constraint

32% of the firms in Pakistan identify corruption as a major business constraint. This is higher than the average for South Asia, which is 28%, and higher than the global average of 29%. Constraints such as corruption which are high in Pakistan compared to other regions in the world, can reduce opportunities for new entrants into the market and raise overall costs of operating.

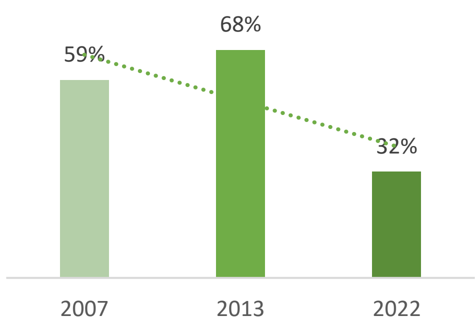
Figure 1: Percent of firms identifying corruption as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The proportion of firms in Pakistan experiencing at least one bribe payment request has reduced significantly in the last few years coming down to 16% in 2022 from 31% in 2013 and 60% in 2007. In 2022, approximately 32% of Pakistani firms considered corruption a major constraint marking a steep decline from 68% in 2013 and 59% in 2007. This could be due to businesses being co-opted by officials or other business constraints which are felt worldwide being on the rise.

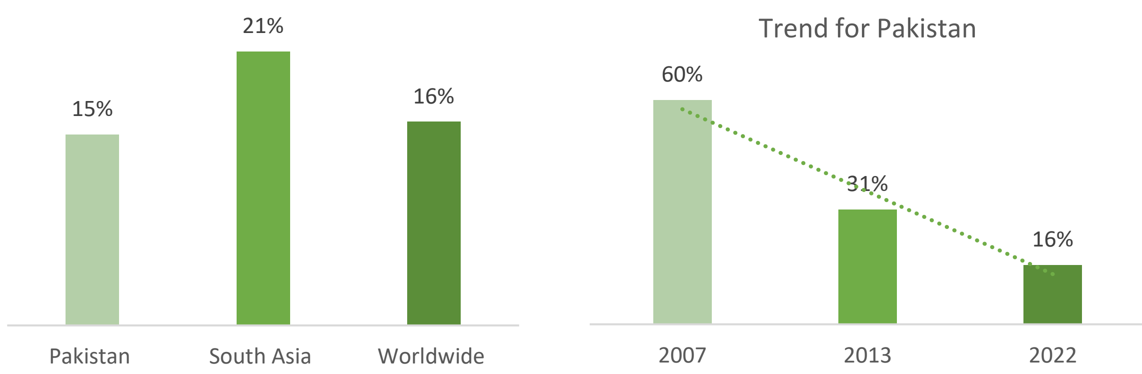
Figure 2: Percent of firms identifying corruption as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

This may signify a change in attitudes and behaviors of individuals who give and receive bribes. 16% of firms in Pakistan report at least one incidence of bribe requests, which is lower than the South Asian and worldwide average of 21% and 16% respectively. These changes can occur if channels of payments or gifts have changed in nature or if governments are stricter in regulating business activities.

Figure 3: Percent of firms experiencing at least one bribe payment request

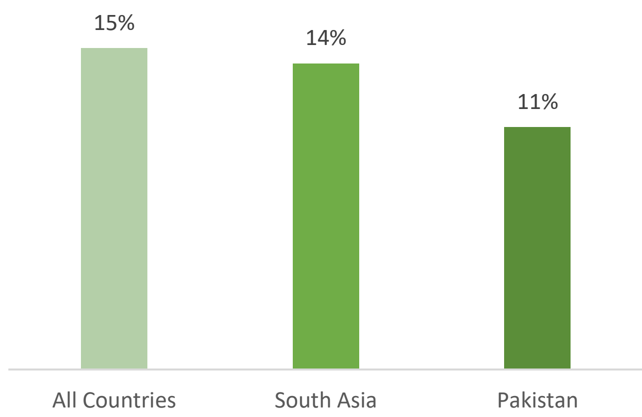


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

11% of the surveyed firms identified the courts system as a major business constraint. This estimate is in line with 14% of firms in South Asia reporting courts as a major business constraint and firms worldwide reporting 15%.

The effects of corruption can be exasperated when firms are unable to receive timely and fair court decisions and can decrease the overall ease of doing business.

Figure 4: firms identifying the courts system as a major business constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

That being said, firms may be less likely to report instances of bribery in order to increase their chances of survival and ensuring that the services provided by such officials are continued. These practices make it harder for individuals who are unaware of industry practices to enter into the market and can cause unexpected delays and rise in the cost of goods produced.

2. Prevalence of corrupt practices

22% of firms in Pakistan report giving gifts to government officials in order to “get things done”. This is lower than South Asian average of 24% and global average of 19%.

Instances of corruption across all industries in Pakistan vary but are widely seen as ways to get electrical and water connections at 57% and 81% respectively as well as securing licenses to import and export goods (20%). This is particularly true for the manufacturing industry.

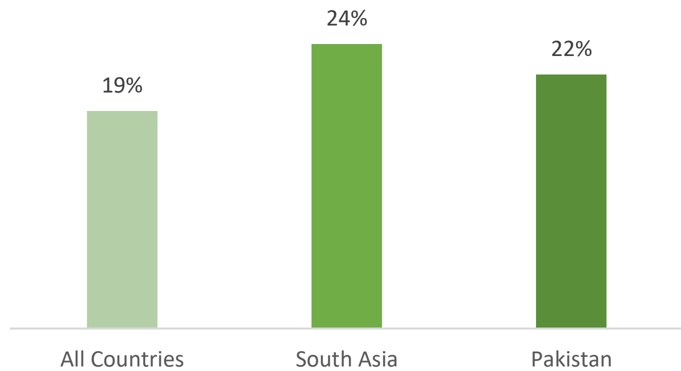
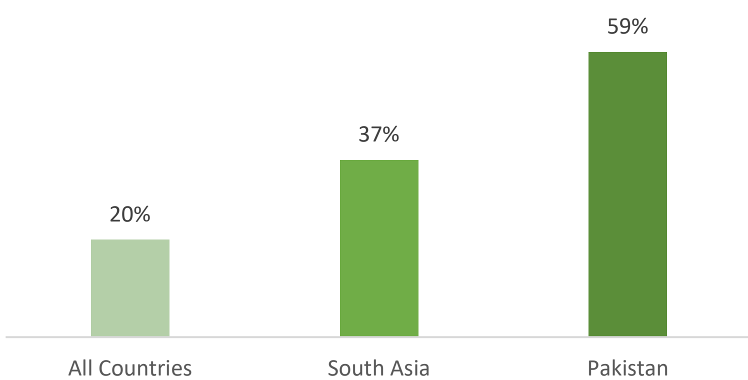


Figure 5: Percent of firms expected to give gifts to public officials "to get things done"
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

59% of firms in Pakistan are expected to give gifts to receive construction permits. While only 37% of firms are expected to pay in South Asia and only 20% of firms are expected to pay worldwide. This marks further increased costs for businesses who want to expand and decreases willingness to invest in businesses when combined with other costs such as gifts expected for tax officials, government contracts and other bureaucratic procedures.

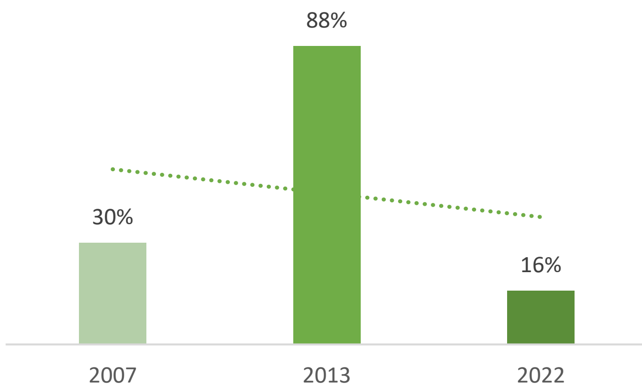
Figure 6: Percent of firms expected to give gifts to get a construction permit



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

While executing agencies such as the National Accountability Bureau (NAB) are granted extensive powers, the issue of routine corruption practices faced by business owners is not being adequately addressed. Many businesses may also be observed utilizing these practices and failing to meet specified requirements for tax payments. This may potentially impact their motivation to disengage from these activities and could have potential benefits such as reduced tax payments and decreased regulation and scrutiny on their activities.

Figure 7: Firms expected to give gifts in order to receive contracts (2007-2022)



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

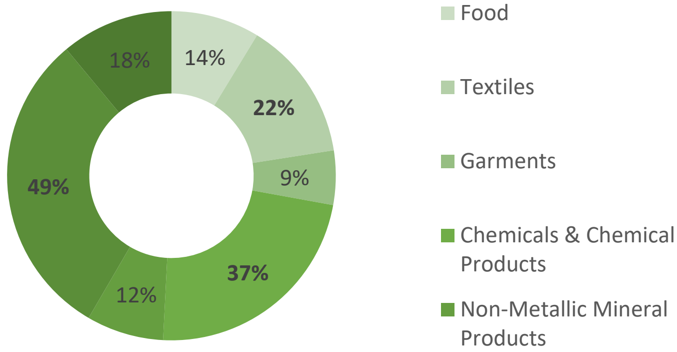
The above figure shows that firms expected to give gifts in order to receive contracts has varied significantly over the 15 years with 30% of firms expected to pay in 2007, approximately 88% of firms in 2013 with a sharp decline in 2022 with only 16% of firms expected to give gifts. This significant drop is worth exploring and may mark a positive shift in the relationships between government officials and the success of firms.

Practices of receiving and giving gifts to government officials may be rampant when firms are engaging in activities that involve payment of taxes and in order to gain government contracts. This reduces opportunity of growth for smaller and reduces willingness of investors who cannot operate amidst informal roadblocks.

3. Corruption in different sectors:

As discussed above, 32% of Pakistani firms believe that corruption is a major business constraint. These figures may vary between sectors and industries. In Pakistan, approximately 16% of organizations operating in both the manufacturing and service sectors have acknowledged receiving at least one request for a bribe payment. Trends may vary even within a given industry, with businesses in the South Asia region reported a slightly higher rate of 22%, while firms in other parts of the world reported a slightly lower rate of 15%.

Figure 8: Bribery incidence (percent of firms experiencing at least one bribe payment request)



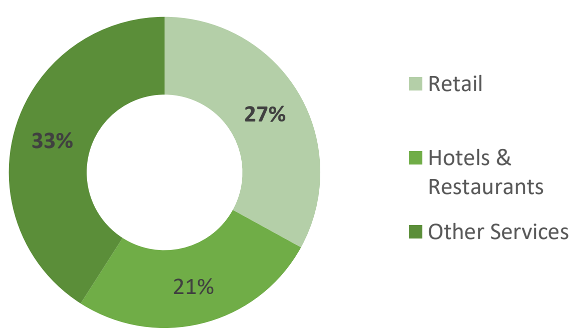
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Particularly in the manufacturing industry, 49% of firms in the motor vehicle and transportation equipment sector, 37% of firms in the chemical products industry and 22% of firms in the textile sector report receiving at least one request for a bribe.

These requests may depend on factors such as the size of the business itself and aspects such as the number of permits and government approval that they need to operate such as firms in chemical manufacturing require extensive government support in order to function. Similarly, vehicle manufacturers require large scale approvals and continued support to operate on a mass level.

These industries need consistent and regular approvals in order to operate and thus may be encouraging government officials to take advantage of the situation at hand.

Figure 9: Percent of firms identifying corruption as a major constraint



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Similarly, in the services sector, 28% of all firms identify corruption as a major constraint. 27% of firms in retail, 21% of hotels and restaurants and 33% of firms that provide other services view corruption as a major constraint. When compared to the manufacturing industry it is clear that the nature of the firm and business affect how prevalent corrupt practices are.

Firms that are in the informal sector may not face these challenges as much as other sectors, thus are less likely to interact with government officials, they are also less likely to expand in ways that require extensive government support.

Regulations and Taxes

Regulations and Taxes - Key Findings

1. **Government regulations and tax officials:** From 2% in 2007 to 0.2% in 2022, businesses’ senior management's time spent on government regulation has declined.

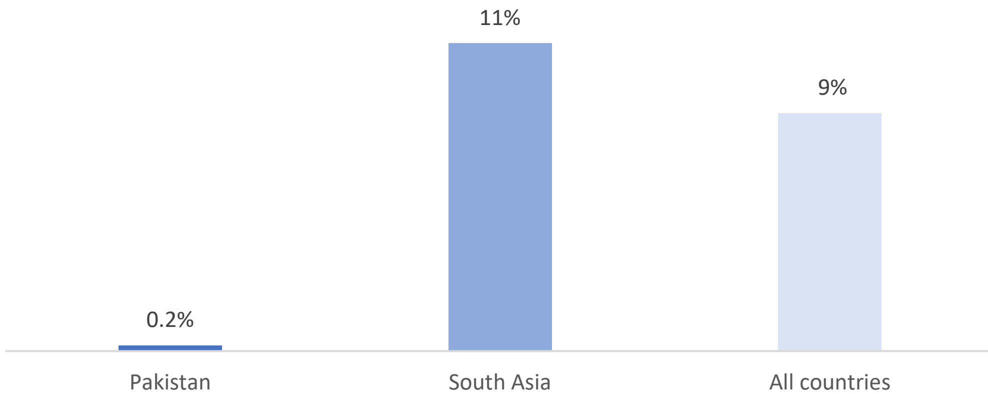
2. **Days to obtain a permit/license:** When compared to South Asian countries and the worldwide data, Pakistan had the lowest average number of days required to obtain an operating license at 5 days.

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

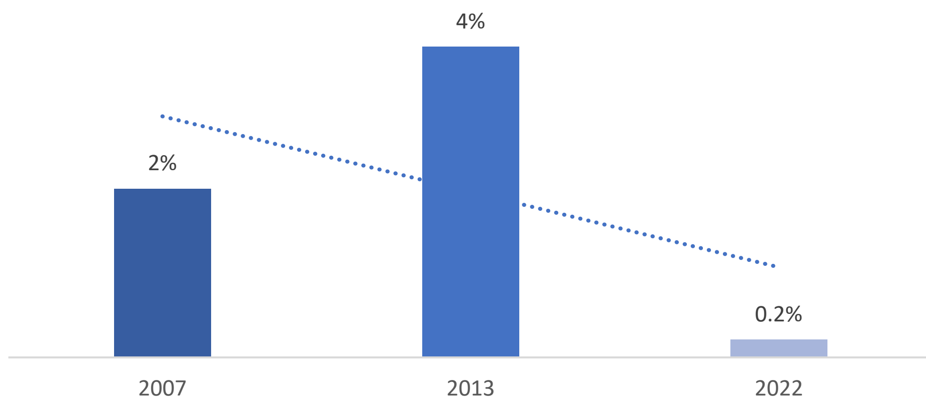
From 2% in 2007 to 0.2% in 2022, businesses' senior management's time spent on government regulation has declined.

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



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

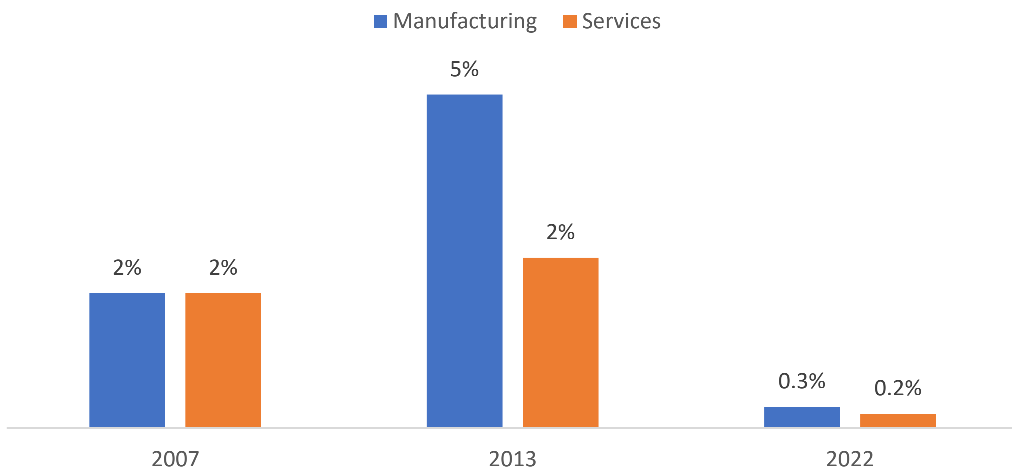
Figure 2: Senior management time spent dealing with the requirements of government regulation – Pakistan trend



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.

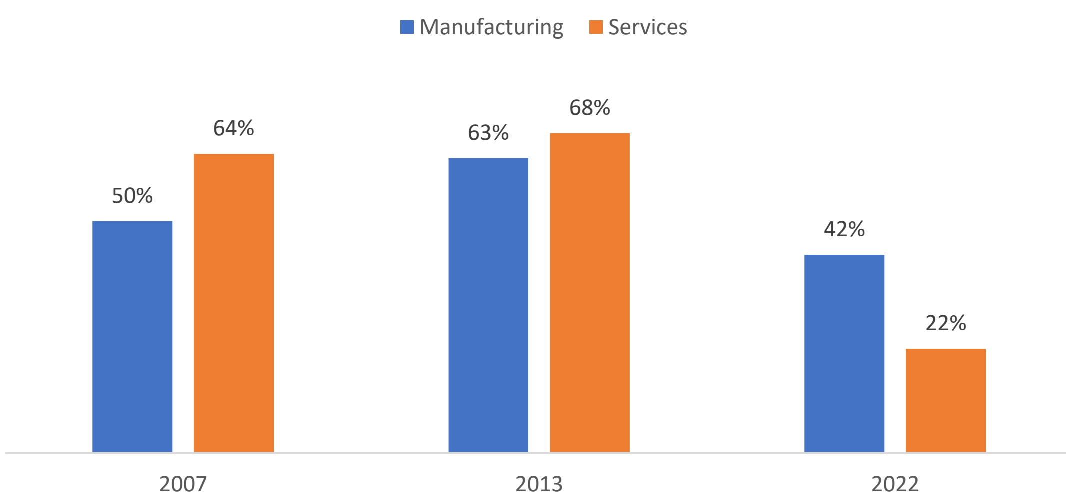
Figure 3: Senior management time spent dealing with the requirements of government regulation (%)



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.

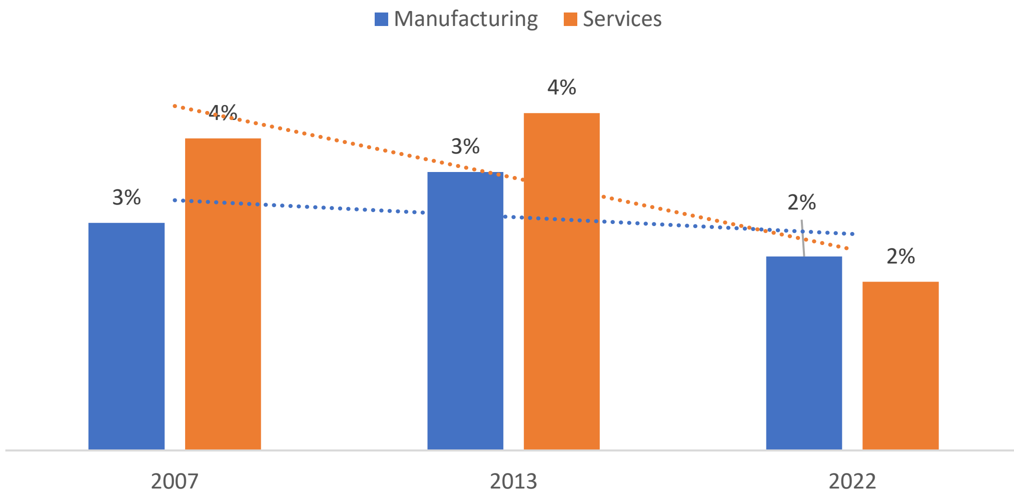
Figure 4: Percent of firms visited or required to meet with tax officials



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

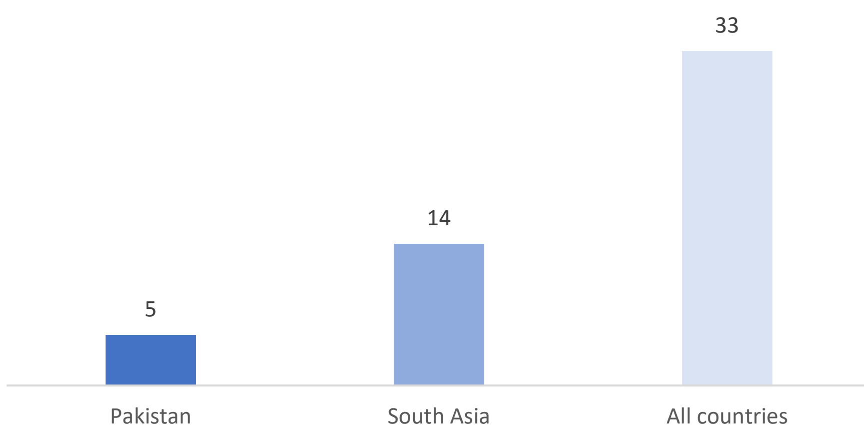
The most recent data indicates a tendency towards reduced regulatory burdens and fewer encounters with tax authorities in Pakistan, despite the senior management's participation with governmental regulations and interactions with tax officials experiencing changes over the years. These changes can result 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

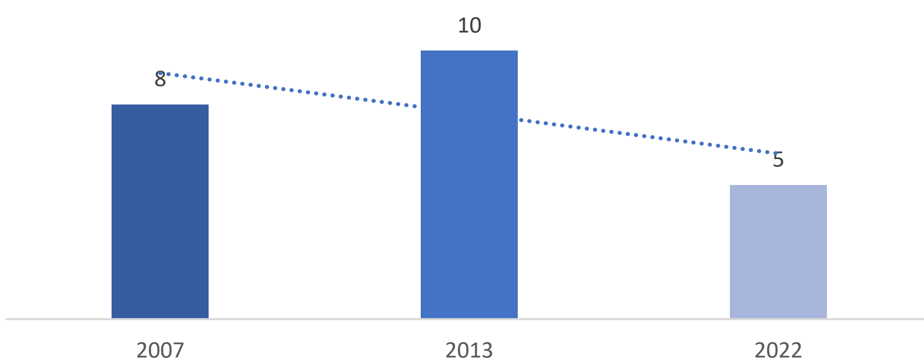


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

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

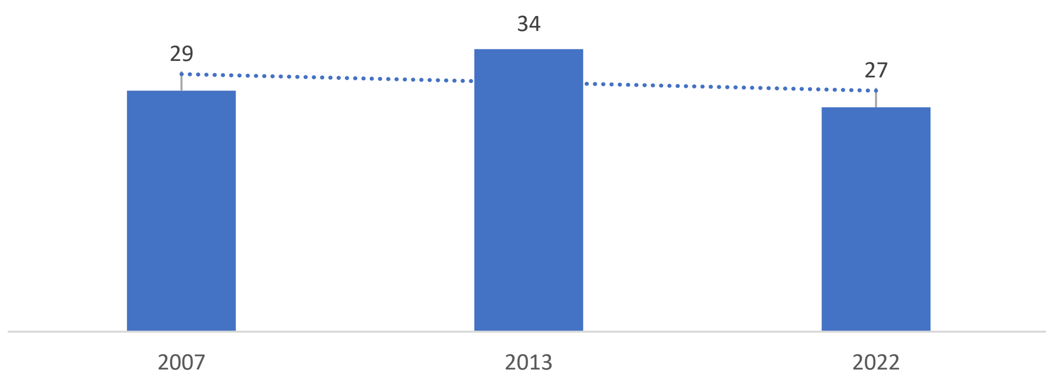


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

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.

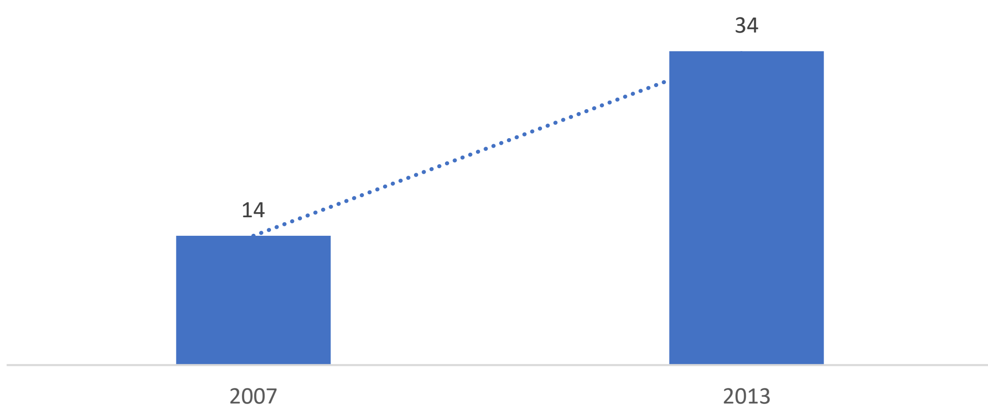
Figure 8: Number of days to acquire a construction-related permit – Pakistan trend



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

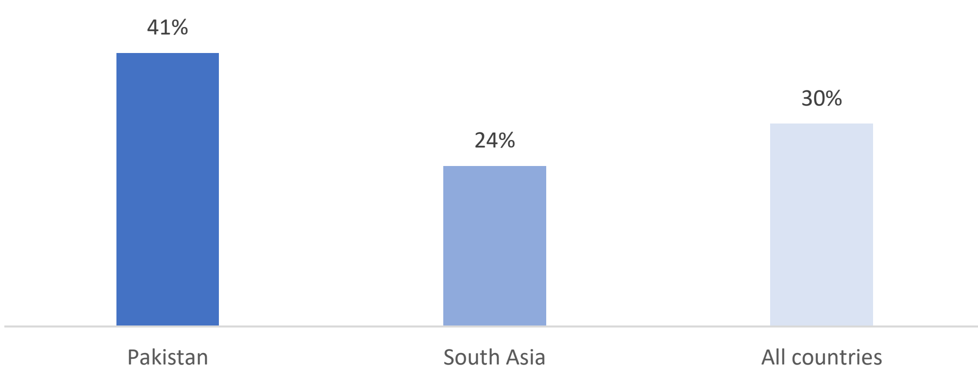
An intriguing pattern is noted when comparing the manufacturing and services industries. Both industries had trouble acquiring licenses and permits in 2007. The manufacturing industry, h however, showed more steady improvements over time. In terms of the time needed to get operating licenses and import 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%.

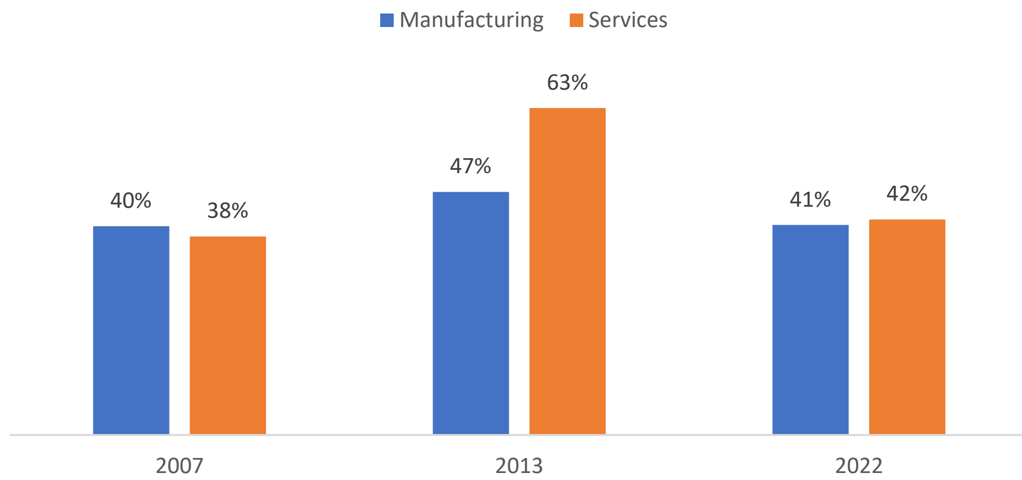
Figure 10: Percent of firms identifying tax rates as a major constraint



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

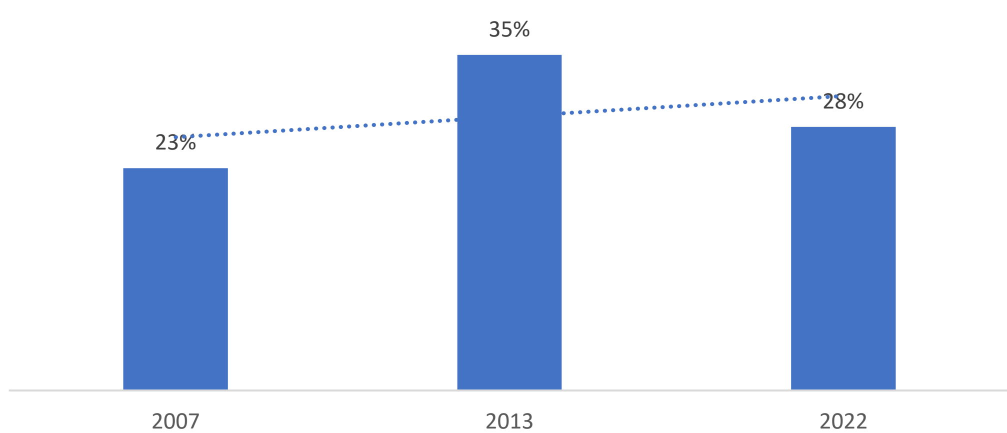


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

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.

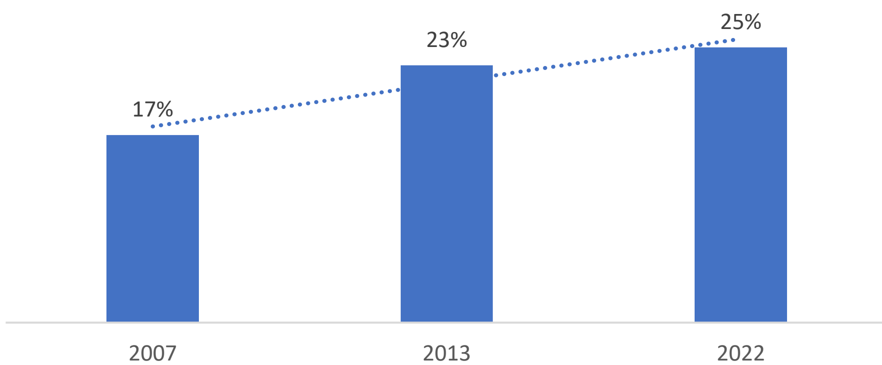
Figure 11: Percent of manufacturing firms identifying tax administration as a major constraint – Pakistan trend



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

APPENDIX

Sampling Methodology

The sampling methodology of the World Bank's Enterprise Survey generates sample sizes appropriate to achieve two main objectives: first, to benchmark the business environment of individual economies across the world and across groups of firms within each economy; second, to conduct firm performance analyses focusing on how the business environment affect firm-level outcomes such as productivity, job creation, investment, and growth.

To achieve both objectives the sampling methodology:

• generates a sample representative of the non-agricultural, non-extractive formal private economy,
• generates large enough sample sizes for selected industries and other groups of firms to conduct statistically robust analyses with a minimum 7.5% precision for 90% confidence intervals1 of:

i. Estimates of population proportions (percentages); and
ii. Estimates of the mean of log of sales.

Enterprise Surveys are stratified by sector of activity, firm size, and geographical location. Stratification by firm size divides the population of firms into 3 strata: small firms (5-19 employees), medium-size firms (20-99 employees), and large firms (100 or more employees); in very large economies a fourth size stratum is added, the top 1% of firms by size. Geographical stratification is defined to reflect the distribution of the non-agricultural economic activity of each country, which in most cases implies covering the main urban centers of the country. Around the world most of the non-agricultural, non-mining economic activity, the ES Universe, is clustered around the main centers of population.

The questionnaire for the Enterprise Survey can be accessed HERE.

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