



American Business Council Perception Survey 2013

F-30, Block 7, K.D.A. Scheme No. 5,
Kehkashan Clifton, Karachi, Pakistan

Tel: (+92) 021 - 35877352, 35877390
Fax: (+92) 021- 35877391

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Executive Summary

The Perception Survey, conducted by the American Business Council of Pakistan (ABC), is an annual exercise aiming to provide insights on our members' perception of the prevalent business climate of the country. The intent of the survey is to benchmark the current year's findings against the previous year in order to gauge how the overall perception has changed and understand the possible rationale behind this change. Hence, the Perception Survey assists in forming an educated opinion about the operating conditions faced by the ABC members and is an unbiased resource that can be used by various stakeholders while strategizing and planning.

We are confident that the dissemination and discussion of the ABC Perception survey with the relevant policy makers and government bodies will lead to their better understanding of the macro-economic issues faced by ABC members, and assist them in making vital policies and decisions towards a more conducive business climate of Pakistan.

The results show a discouraging picture with majority participants rating the overall business climate as poor (44%) and fair (50%). However, a positive trend has been identified and there is a reported improvement (36%) from last year. The PML(N) government with their track record of pro-business and infrastructure development policies seem to have had a positive effect on investor confidence. Similarly, when considering the operating environment for doing business in Pakistan, our survey participants have rated it as generally fair with 60% of firms finding it satisfactory to do business in Pakistan. 37% still view the environment as poor and only 3% see it as good. These findings are in line with the Ease of Doing Business Survey carried out by the World Bank where Pakistan ranks 110 out of 189 countries. Having said this, a sizable section (32%) of our survey participants do see an improvement in the operating climate which may be attributed to increased efforts by the current government to stabilize relations with major world powers and neighbors such as United States and India, along with ongoing peace efforts in the country.

An analysis of the economic environment of Pakistan reveals that all respondents rated it poor (60%) or fair (40%). This reflects the on-going situation for the last 6 year since the 2008 world economic collapse along with the poor performance of the last government. There was a mixed response regarding the economic climate this year compared to 2012; with 33% citing improvement, 22% considering it worse and 45% seeing no change at all. It was observed that participants found the prevalent law and order situation and the unsuccessful implementation of

policies to be the two most deterrent factors affecting the economic climate. They tended to rate trade policy and the external and internal political situation more favorably.

While discussing performance of federal ministries, the overall trend seems to point to similar levels of performance as compared to last year for most, except the Ministry of Finance & Economic Affairs showing improvement (25%) and the Ministry of Ministry of Interior (37%). At a mere 10%, the Ministry of Science And Technology received the highest “Good” rating. This may be on account of their recent efforts towards technology up-gradation by means of introducing and licensing 3G and 4G technologies. On the other hand, the Ministry of Petroleum & Natural Resources seems to be performing below others with 60% awarding it poor performance ratings.

Similarly, performance ratings for various autonomous bodies have not changed much as compared to last year. The IPOB continues to be rated as performing poorly (47%) in its efforts to protect intellectual property rights of firms. SECP, Competition Commission and State Bank of Pakistan enjoyed better responses with more than 50% fair and sizeable good performance ratings. One body that has shown some improvement (26%) is the Board of Investment; this may be linked to an increase an effort by the BoI to attract investors from countries such as China, United States and various Gulf states.

57% of our participants have found satisfactory access to Government Agencies and Ministries with 37% and 9% rating access as poor and good respectively. Compared to 2012 there has only been a slight improvement (18%) with majority participants rating it the same (70%) and some rating it worse (12%) than before.

Participants were also asked to consider factors having any quantifiable impact on their company’s operations/investment plans. Law and order conditions were the leading cause of concern with the highest number of poor ratings (62%), followed by cost of operations (59%). However while law and order has improved (19%), cost of operations has increased and worsened (34%) leading to a comparative disadvantage for Pakistan in comparison with other countries in the region such as India and Bangladesh.

A region-wise performance rating was conducted as part of the survey to gauge the disparity, if any, between Sindh and Punjab in terms of performance of their various government departments like health, police, industries, labour, etc. Punjab Government came out to be way ahead than the Sindh Government, showing major average improvement over last year (50%) in almost all departments specially Department

of Health (67%). The Punjab provincial government under Chief Minister Shahbaz Sharif has been very proactive in its infrastructure and business development policies by offering various incentives to investors. Conversely, little average improvement (4%) was reported for Sindh government, with a common trend of fair to poor rating for various departments. The only department to show improvement is the Sindh police (22%) due to its efforts in curbing the crimes of extortion and kidnapping within the city.

While the general sentiment regarding functioning and performance of government bodies remains largely unsatisfactory, participants feel quite satisfied with the performance of American Diplomatic Missions in Pakistan such as the US Embassy and US Consulate. For 2013, both have scored well, even showing considerable improvement.

In ABC survey participants were asked if they would be planning any further investment in the country in the next 12 months. 54% of the participants plan to increase investment within the country while 46% will not be investing. Of those that do intend to invest some 33% will be investing up to \$250mn and an encouraging 67% investing above \$250mn in Pakistan within the next 12 months. This trend of future investment shows that although some investors are planning to further investment a large number remain hesitant.

Foreign investment also depends on international standing and the perception of a country. Unfortunately, the survey results reveal that 67% of our respondents believe the international perception of Pakistan is poor. 33% were of the opinion that it's fair, while none found it good. 36% thought it had worsened from last year and only 18% reported an improvement. Moreover, most respondents (60%) were not optimistic about any improvement in Pakistan's economic and operating environment in the short term, but 74% felt that conditions would improve in the long term. Generally, macro-economic changes take years of consistent efforts made by the government and although the present federal government has initiated such efforts, it will have to sustain them and ensure proper implementation to pave the way for foreign investors.

Methodology

The survey methodology has been designed in accordance with the purpose and scope of the survey which was to gauge the views ABC members have about the operational environment of Pakistan. This includes various economic and political factors that affect the performance and growth of businesses. Additionally the performance of government ministries and bodies was also included in the survey as they directly influence the ease of business and economic climate in the country.

The Perception Survey is a cross-sectional survey. It employs a three point Likert Scale to be used by the participants to rate specific aspects of the business climate, performance of various autonomous bodies and so on. Participants completed this excel survey during the period December 2013 to February 2014. The average length of the survey was ten minutes. Their ratings have been tabulated to give an overall perception analysis.

ABC secretariat has carried out the complete process of conducting the survey and compiling and preparing the final report.

Statement of Confidentiality

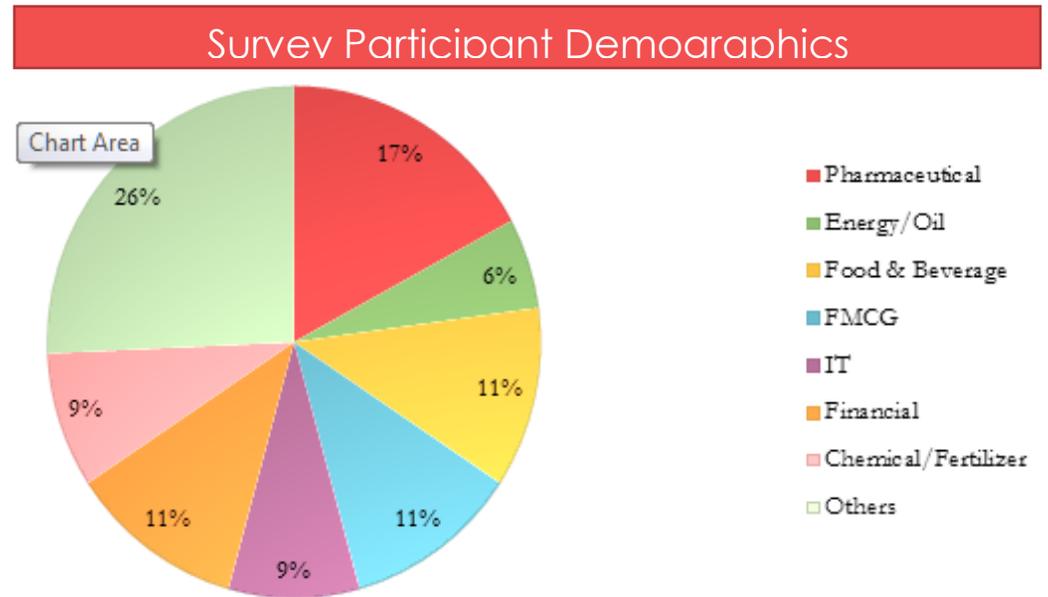
The responses have been kept strictly confidential. The survey examines the opinions of groups of respondents. Individual inputs have only been used in combination with input from other respondents and are not to be shown or made available to anyone.

Note: The results reported can only be considered the opinions of the survey participants. They cannot be generalized to represent the entire client population as a whole.

Demographics

The Perception Survey questionnaire was disseminated amongst 65 ABC member companies. A large number of companies are majorly based in the United States of America and are therefore key contributors of foreign investment. Moreover, they hail from various industries, spanning the business sectors of Pakistan.

From the 65 members, 35 provided feedback, resulting in a response rate of 54%. In terms of categorization, the sample had been divided into 8 categories and responses were obtained from each. The following figure shows the sector-wise distribution of the participating companies. Participant members not belonging to the 7 distinct categories have been summed up in the 'Others' category.



Survey Results

Business and Economic Perception

Q.1: How would you rate the present overall business climate in the country?

The Business climate of a country refers to the combination of various factors such as the attitude of the government and lending institutions towards businesses along with factors such as taxation regime, inflation rates and labor policies.

For 2013, 50% of respondents rated the Business climate of Pakistan as fair while 44% rated it as poor while only 6% gave a good rating. However, compared to 2012 some 36% of the correspondents think that the climate has improved. The new PML(N) government with its track record of pro-business and infrastructure development policies is likely to have had a positive effect on investor confidence. Half of the survey participants still believe there is no change within the climate while 12% have rated it worse than before.

Q.2: How would you rate the operating environment for doing business in the country?

While the business climate looks specifically at factors directly affecting the business health of a firm, the operating environment of a country takes into consideration not just the economics, but the political and social climate within the state which directly or indirectly affects the performance of a Business in Pakistan. This year our survey participants have rated this environment as generally fair with 60% of firms finding it satisfactory to do business in Pakistan. 37% view the environment as poor and only 3% see it as good. Compared to last year the majority (59%) see no change in the environment they operate in. However, a sizable section (32%) of our survey participants sees an improvement which may be attributed to the change in government, stability in relations with major world powers and neighbors such as United States and India, along with ongoing peace efforts with militants in the country.

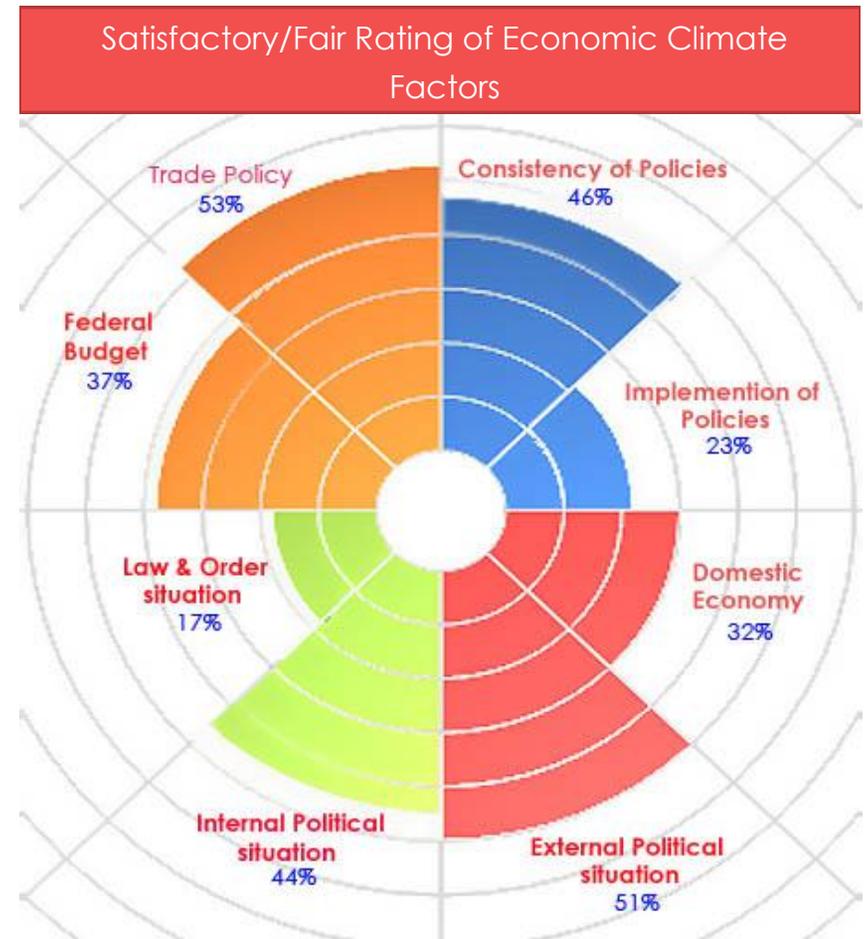
Q.3: How would you rate specific aspects of the economic climate in the country?

A Business is affected by various economic factors; these include implementation and consistency of trade and competition policies, government development budget, domestic economy, internal and external political climate and law & order.

The law and order conditions of Pakistan received the worst response, with 83% respondents rating it poor and the remaining 17% as fair. Yet, 39% reported an improvement from last year. In the previous year, several operations have been conducted by rangers & police to rid Karachi of professional trouble-mongers, simultaneously cease-fire with the Tehrik-e-Taliban has provided some breathing space to the business community in Pakistan as well.

The second most low scoring economic climate factor was implementation of policies with 74% rating it poor. Policy implementation has been a long standing challenge for Pakistan. Lack of political commitment of leadership, unclear policy goals, limited resources and their poor allocation are some of the factors leading to policy failure. Our respondents didn't report much improvement (18%) either, with majority (62%) stating it to be the same as the previous year and 20% claiming it had worsened.

On the other hand trade policy and the external political situation were found to be the two most satisfactory economic climate factors. Majority (52%) rated Trade policy 2013-14 to be fair followed by 48% poor ratings. 75% were only as satisfied with it as they were with Trade Policy 2012-13. 51% found the external political situation to be fairly satisfactory



and 29% reported an improvement from last year. This is consistent with the efforts being made by the Ministry of Commerce and other stakeholders to open trade with India and identify new trading partners.

The overall economic climate of the country was rated poor by 60% of the respondents with 40% considering it fair. This reflects the on-going situation for the last 6 year since the 2008 world economic collapse along with the poor performance of the last government. There was a mixed response regarding the economic climate this year compared to 2012; with 33% citing improvement, 22% considering it worse and 45% seeing no change at all.

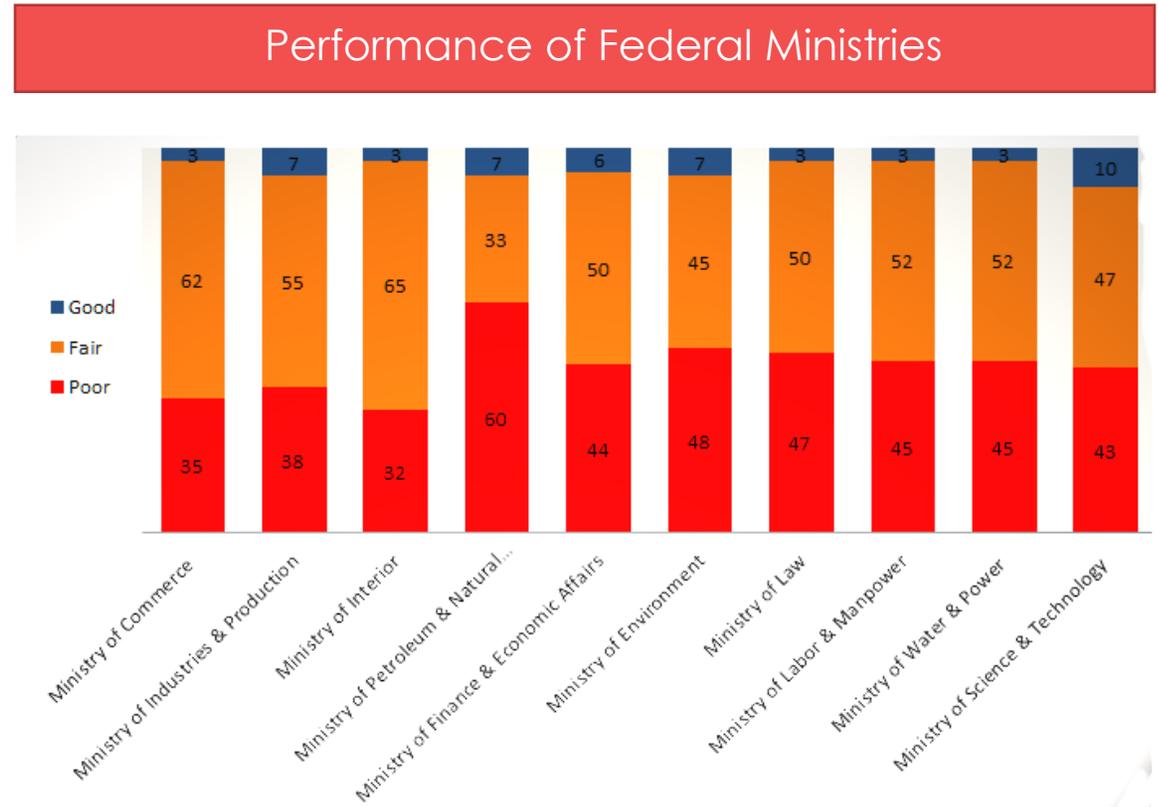
Performance of Government Institutions

Q.4: How would you rate the performance of following federal ministries?

The Federal Ministries in the country provide the functioning setup for the government which runs the country. Their performance directly affects the Business climate within the country. For 2013 the various federal ministries of Commerce, Industries & production, Interior, Petroleum and Natural resources, Finance & Economic Affairs, Environment, Law , Labor & Manpower, Water & Power and the Ministry of Science and Technology are shown rated for their performance by our participants in adjacent figure.

The Ministry of Petroleum and Natural Resources seems to be performing below others with 60% awarding it poor performance ratings, while Ministry of Interior was comparatively well-favored with 32% poor and 65% fair rating by respondents.

Ministry of Science And Technology received the most number of good ratings (10%). Their effort towards initiating technology upgradation is reflected in the survey findings. The overall trend seems to point to similar levels of performance as compared to last year for most ministries except for improvements perceived within the Ministry of Finance & Economic Affairs, Ministry of Ministry of Interior and the Ministry of Water and Power.

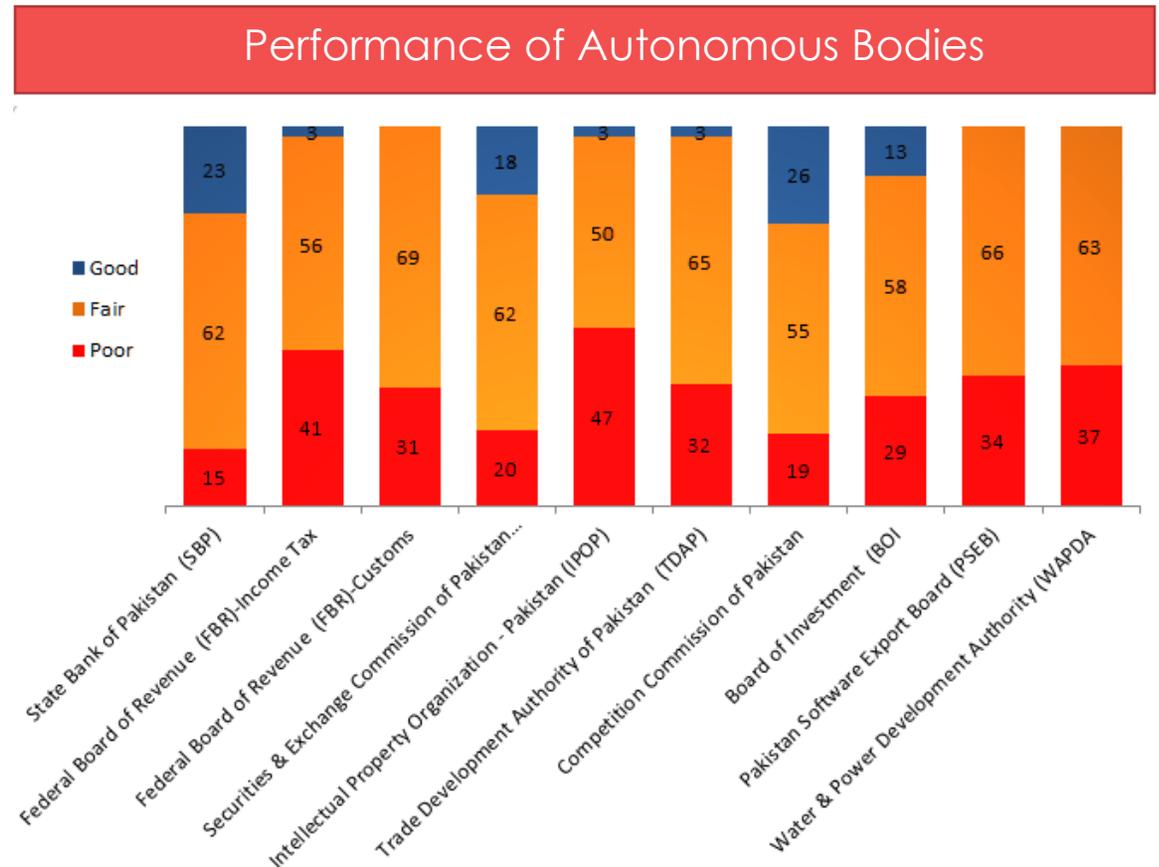


Q.5: How would you rate the performance of following autonomous bodies?

The Government of Pakistan has various entities within its structure of which some operate semi-autonomous of the cabinet but are crucial in their role within the economic activity of the country. These include the State Bank of Pakistan, Securities & Exchange commission of Pakistan, Intellectual Property organization-Pakistan (IPOP), Trade Development Authority of Pakistan, Competition Commission of Pakistan, Board of Investment, Pakistan Software Export Board, Water & Power Development Authority and the Federal Board of Revenue with its Income tax and Customs wings.

The performance rating of the bodies has not changed much as compared to last year, the IPOP continues to be rated as performing poorly in its efforts to protect intellectual property rights of firms. 47% rated it poor while 50% fair.

SECP, Competition Commission and State Bank of Pakistan enjoyed better ratings with more than 50%



fair and sizeable good performance ratings. One body that has been rated to have shown some improvement (26%) is the Board of Investment; this may be linked to an increase an effort by the BoI to attract investors within from countries such as China, United States and various Gulf states. The figure above shows the performance of the bodies as rated by our survey participants.

Q.6: How would you describe current access to requisite government agencies and ministries?

Getting access to information and assistance along is an important aspect looked at by various investors and businesses. The ease or difficulty faced in dealing with these bodies affects the pace of business development and the interest shown by foreign investors. In 2013 57% of our participants have rated it has satisfactory while 37% see it as poor with only 9% rating it as good. Compared to 2012 there has only been a slight improvement in performance of just 18% with 70% of participants rating it the same and 12% rating it worse.

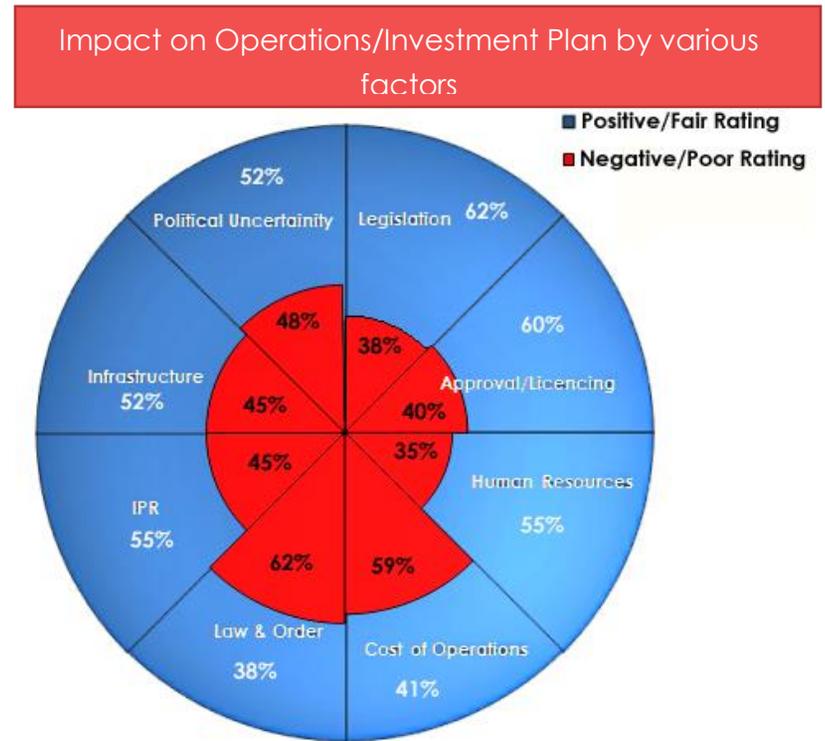
Impact of Business related factors

Q.7: Have the following factors had any quantifiable impact on your company's operation/investment plan?

A firm's operational planning is affected by various external and internal factors. Within external factors are those that rise out of the current economic and social climate along with the policies of the government. These include Legislation, Licensing/Approval issues, Human Resources, Cost of Operations, Law & Order, IPR, Infrastructure and Political Uncertainty along with others. The impact of these factors on the operational and investment plans of our participating firms in terms of positive and negative effects is shown in the adjacent figure.

The only improvement rated by the participants in comparison to 2012 was seen in the political climate with the new government well settled with a majority and public support. Law and Order and Political Uncertainty reported an improvement of 19% and 31% respectively. A similar trend was observed as respondents answered the question regarding the operating environment for doing business in Pakistan. Although law & order conditions have improved from previous year, they are still a leading cause of concern with 62% rating them poor and having a negative impact on the business climate.

Cost of Operations was also identified as the second factor impacting the business climate with the least ratings (59% poor) and 34% ratings showing worsened conditions. Higher cost of operations gives Pakistan a comparative disadvantage compared to other countries in the region where per unit



Note: Due to the negligible percentage of "good" ratings given by our participants, these have been amalgamated into the "fair" ratings in figure.

electricity tariff, gas tariff and discount rates are much lower in regional players than of Pakistan. The rest of the factors were found to be fairly similar to last year with not much increase in confidence by participants in the prevailing business climate.

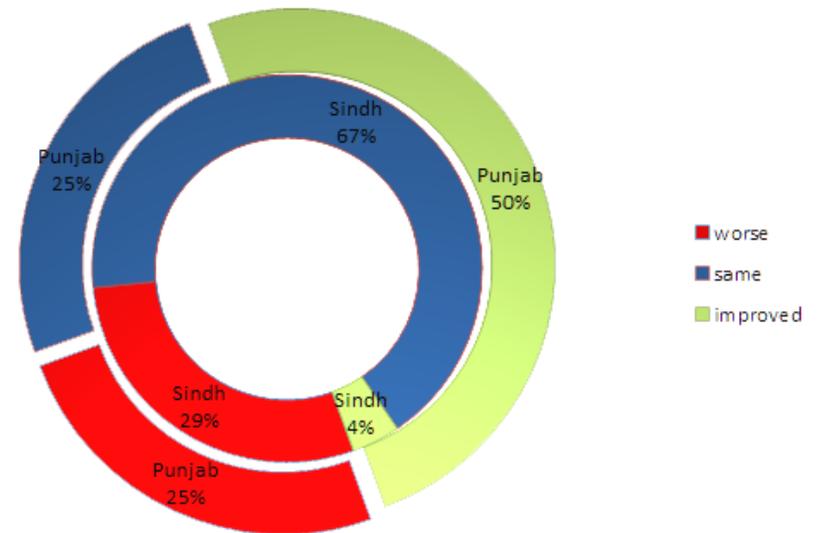
Provincial Government Performance

Q.8 & 9: How would you rate the performance of provincial government departments in your region of operation? (Please specify i.e. Sindh, Punjab etc.)

ABC survey participants operate throughout Pakistan with a major presence in Sindh and Punjab which makes them an excellent gauge of the contrast to gauge the Business potential within a region in Pakistan. The provincial governments are responsible for ensuring that the economic, social and security climate within their province is attractive to businesses and provides safety to investors through an effective law & order system.

Punjab: Punjab is the largest province within Pakistan and is the most developed and populous with approximately 56% of the country's total population. The Punjab provincial government under Chief Minister Shahbaz Sharif has been very proactive in its infrastructure and business development policies by offering various incentives for investors. The survey participants are equally divided over the overall performance of Punjab but see a major average improvement over last year (50%) in almost all departments specially Department of Health (67%).

Sindh versus Punjab Performance Improvement



Sindh: The province of Sindh has traditionally been the gateway to Pakistan via the seas with the country's largest economic and business hub in the port city of Karachi. The city is not just the center of financial activities within the country but is also home to the largest urban population. However, the city has been generally plagued with poor Law & Order which has had a major effect on economic activities that effects business across the country. Our survey participants saw little average improvement (4%) in their opinion of the Sindh government and its performance with a common trend of fair to poor rating for various departments. The only department to show slight improvement is that of the Sindh police (22%) due to its efforts in curbing the crimes of extortion and kidnapping within the city.

Performance of American Diplomatic Mission in Pakistan

Q.10: How do you rate the working of the US Embassy?

The US Embassy in Pakistan helps in visa facilitation for visiting executives of US based and linked firms along with helping build economic links. For 2013 the visa section has been rated mostly between good and fair with a 37% improvement in performance versus last year. The economic section has been rated as generally fair(64%) with only 12% rating it as poor, this compared to last year is slight improvement of 21% as seen by our survey participants. The commercial activities section also has a similar mostly fair appraisal which has been rated mostly same as 2012.

Q.11: How do you rate the working of the US Consulate?

The US Consulate in Karachi works to facilitate economic and commercial links between investors in the United States and Pakistan along with introducing trade links between the two nations. The performance of the economic section has been has generally been rated between good (29%) and fair (68%), with some improvement from last year (23%). The commercial section shares similar rating (68% fair and 32% good), with an improvement rating of 31%.

Future Perception and Investment

Q.13: Is your company planning any investment in Pakistan during next 12 months?

ABC survey participants were asked if they would be planning any further investment in the country in the next 12 months; if they were they were also asked to give a rough estimate of the amount they intend to invest. 54% of the participants were to increase investment within the country while 46% will not be investing. Of those that do intend to invest some 33% will be investing up to \$250mn, and an encouraging 67% investing above \$250mn in Pakistan within the next 12 months.

This trend shows that although some investors are planning to further invest, a large number remain hesitant. A pro-business policy and a more stable and active government have given a boost to investment but the actual results can only be derived over a couple of years if the initial plans are carried out.

Q.14: How would you rate Pakistan's perception internationally?

International standing and perception of a country is extremely important as it can dramatically impact its ability to attract foreign capital in the form of trade exports, human resources, tourism and most importantly foreign direct investment.

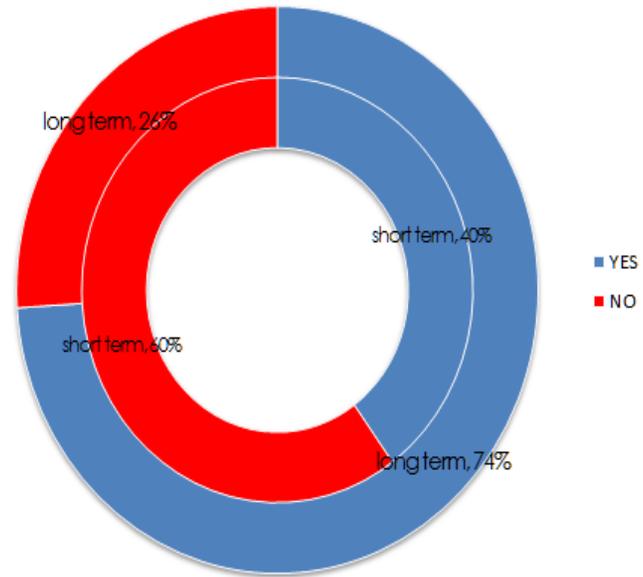
Unfortunately, the survey results reveal that 67% of our respondents believe the international perception of Pakistan is poor. 33% were of the opinion that it's fair, while none found it good. While comparing Pakistan's current international perception to that of the year before, majority reported it to be fairly the same. 36% thought it had worsened from last year and only 18% reported an improvement.

These responses, to some extent, reiterate the respondents view regarding their personal perception of Pakistan's operating environment for doing business.

Q.15: Are you optimistic about the future economic and operating environment?

Pakistan's economic environment has been closely linked to its political climate. Political stability brings along security and stability for operating businesses. Most respondents (60%) were not optimistic about any improvement in Pakistan's economic and operating environment in the short term, but 74% felt that conditions would improve in the long term. Generally, such macro-economic changes take years of consistent efforts made by the government and although the present federal government has initiated such efforts, it will have to sustain them and ensure proper implementation to pave the way for foreign investors. Hence, the initiation of business friendly policies and programs is not enough for guaranteeing a better economic environment. Respondents can foresee more conducive economic conditions if these efforts are continued and built upon in the years ahead.

Optimistic about Future Economic and Operating Environment



- j) Ministry of Water & Power -----
- k) Ministry of Science & Technology -----

5 How would you rate the performance of following autonomous bodies?

- a) State Bank of Pakistan (SBP)-----
- b) Federal Board of Revenue (FBR)-----
 - i) Income Tax -----
 - ii) Customs -----
- c) Securities & Exchange Commission of Pakistan (SECP)-----
- d) Intellectual Property Organization - Pakistan (IPOP) -----
- e) Trade Development Authority of Pakistan (TDAP) -----
- f) Competition Commission of Pakistan -----
- g) Board of Investment (BOI)-----
- h) Pakistan Software Export Board (PSEB) -----
- i) Water & Power Development Authority (WAPDA) -----

6 How would you describe current access to requisite government agencies and ministries?

	Good	Fair	Poor		Improved	Same	Worse

7 Have the following factors had any quantifiable impact on your company's operations / investment plan?

- a) Legislation
- b) Approval/ Licensing
- c) Human Resources
- d) Cost of Operations
- e) Law & Order
- f) IPR
- g) Infrastructure
- h) Political Uncertainty

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i) Others - Please specify. -----

8 How would you rate the performance of provincial government departments in your region of operations? (Please specify i.e. Sindh, Punjab etc.)

- a) Overall -----
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- b) Department of Health -----
-
- c) Department of Industries -----
- d) Department of Labor -----
-
- e) Patent Office (Karachi) -----
- f) Police / CCPO -----
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9 How would you rate the performance of the city government in your region of operations? (Please specify i.e. Sindh, Punjab etc.)

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10 How do you rate the working of the US Embassy ?

- a) Visa / Consular Section -----
- b) Commercial Section-----
--
- c) Economic Section -----

11 How do you rate the working of the US Consulate?

- a) Commercial Section-----
--
- b) Economic Section -----

12 What is the equity structure of your company?



a) Wholly U.S. owned b) U. S. Majority c) Pak. Majority d) Others

13 Is your company planning any investment in Pakistan during next 12 months?

Yes No

If yes, please indicate the level of investment

a) Upto US\$ 100,000 b) From US\$ 100,000 to 250,000 c) Over US\$ 250,000

14 What industry/trade sector best describes your primary business?

a) Agriculture	<input type="text"/>	b) Chemical & Fertilizer	<input type="checkbox"/>	c)Energy	<input type="text"/>	d) Engineering	<input type="text"/>
e) Financial Services	<input type="text"/>	f) Food & Beverage	<input type="checkbox"/>	g) Pharma / Healthcare	<input type="text"/>	h) IT & Comm	<input type="text"/>
i) FMCG	<input type="text"/>	j) Oil & Gas	<input type="checkbox"/>	k) Textiles	<input type="text"/>	l) Other Sectors	<input type="text"/>

15 How do you rate Pakistan's perception internationally?

Good	Fair	Poor		Improved	Same	Worse
<input type="text"/>	<input type="text"/>	<input type="text"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>

16 Are you optimistic about the future economic and operating environment:

	Yes	No
a) Short term	<input type="text"/>	<input type="text"/>
b) Long term	<input type="text"/>	<input type="text"/>

Member's Name Name Title Date

