

2023-24



FPCCI FEDERAL BUDGET PROPOSALS 2023-24

Tax System to Strengthen Economy



The Federation of Pakistan
Chambers of Commerce & Industry

وفاق ایوان ہائے تجارت و صنعت - پاکستان



Contents

1. Foreword	01
2. Office Bearers FPCCI	02
3. FPCCI Federal Budget Advisory Council	03
4. FPCCI Secretariat Team	06
5. Message by the Convener Advisory Council on Federal Budget	07
6. Tax System to Strengthen Economy	08
• Preamble	09
• Micro, Small and Medium Size Enterprises	10
• State of Pakistan Agriculture Economy	12
• FPCCI Proposals for Improving Agriculture Sector.....	14
• Pakistan Agri-REIT	16
• Taxation and Economic Policy.....	19
• Issues in Good Governance	23

Foreword



In this newly emerging world there would be no respect for underdeveloped nations. Sovereignty of only the well off and developed nations will be protected. Therefore we are today standing at a juncture where we must improve the economic development and wellbeing of Pakistan. By developing ourselves in the shortest possible time, we can protect our sovereignty from external interference, domination and dictation.

The freedom from global donor's dictation and reaching of a growth rate necessarily advised for a trickledown effect to eradicate poverty is of immense importance today. Due to irresponsible utilization of resource and borrowed money, political uncertainty, and inconsistent weak policy making Pakistan is facing serious problems.

Pakistan is passing through economic crisis and all its economic fundamentals are showing declining trends. Besides external front, Pakistan is confronted with many internal Challenges and threats such as inflation, unemployment, terrorism, street crimes, deteriorating law and order situation, poverty, political uncertainty, corruption etc. which have adversely impacted trade and industrial activities. Under these circumstances, it is imperative that the government in the forthcoming budget should take the measures for simplicity and austerity, drastic cut in non-development and unnecessary expenditures to achieve the objective of self-reliance.

We would like to highlight couple of key items as follows:

- Capping of Administrative Expenses,
- Rationalizing size of Management and Staff of Public Companies,
- End of VIP Culture,
- Reduction in losses of PSEs/SOEs,
- Privatization,
- SMEs are equally important player in the country and all efforts to be made for its promotions as well,
- Documentation of economy,
- Reduction in Mark-up Rate for Industrial Credit,
- Using Discretionary Power is one of the biggest avenue of corruption and indirectly triggers black economy,
- Efficient Infrastructure Planning is always a neglected phenomenon in our country. We strongly urge Government to trigger long-term strategic plan for infrastructure development. We propose following measures to be taken on war footing,

Pakistan will not be able to achieve a meaningful Socio-economic prosperity unless the bad condition of energy, astonishing high circular debt, gas and industrial infrastructure is improved. At the same time, the entire burden of tax collection is presently being borne by the industrial sector of the country, which is another area which needs to be addressed. Due to these challenging issues and circumstances, the FPCCI in its budget proposals have stressed the restoration of macroeconomic stability, the revival of economic growth and maximum facilitation of trade, industry and investment.

Therefore, FPCCI in its budget philosophy recommends to focus on actions to be taken related:

1. Micro, Small and Medium Size Enterprises
2. Agriculture sector - The most important artery of our economy.
3. Industrial, Commercial segment.
4. Tax policies and reforms.

The Business Community of Pakistan and the highest apex body of trade and industry, the FPCCI is highly optimistic and assure full cooperation to the government for its endeavors to re-tract and develop Pakistan's economy.

Irfan Iqbal Sheikh
President

OFFICE BEARERS



IRFAN IQBAL SHEIKH
PRESIDENT



MUHAMMAD SULEMAN CHAWLA
SENIOR VICE PRESIDENT



**SHABBIR HASSAN
MANSHA CHURRA**
VICE PRESIDENT



**MUHAMMAD NADEEM
QURESHI**
VICE PRESIDENT



ENGR. M. A. JABBAR
VICE PRESIDENT



SHAUKAT ALI OMERSON
VICE PRESIDENT



QAZI MUHAMMAD AKBAR
VICE PRESIDENT



**MOHSIN MAQBOOL
SHAIKH**
VICE PRESIDENT



UMAR MASOOD UR REHMAN
VICE PRESIDENT



AMIN ULLAH BAIG
VICE PRESIDENT



JAMAL UD DIN
VICE PRESIDENT



HAJI MUHAMMAD YAQOOB
VICE PRESIDENT



RIFFAT MALIK
VICE PRESIDENT

FPCCI BUDGET ADVISORY COUNCIL (2023)

FOR PREPARATION OF FPCCI PROPOSALS FOR THE FEDERAL BUDGET 2023-2024

MR. ZAKARIA USMAN
FORMER PRESIDENT FPCCI
PARTNER, PERFECT ENGINEERING WORKS

CONVENER



KARACHI

MR. MOHAMMAD SULEMAN CHAWLA
SENIOR VICE PRESIDENT FPCCI
CHIEF EXECUTIVE, QUALITY DYEING & FINISHING PVT LIMITED

CO-CONVENER



KARACHI

MR. SHABBIR HASSAN MANSHA CHURRA
VICE PRESIDENT FPCCI
PROPRIETOR, SHABBIR INDUSTRIES

**DEPUTY
CONVENER**



KARACHI

MR. MUHAMMAD NADEEM QURESHI
VICE PRESIDENT FPCCI & CHAIRMAN REGIONAL OFFICE LAHORE
DIRECTOR, FOUR BROTHERS BIOLOGIC

**DEPUTY
CONVENER**



LAHORE

ENGR. M. A. JABBAR
VICE PRESIDENT FPCCI
CHIEF EXECUTIVE, QAIM AUTOMOTIVE MFG. PVT. LTD.

**DEPUTY
CONVENER**



KARACHI

MR. UMAR MASOOD UR REHMAN
VICE PRESIDENT FPCCI
DIRECTOR, SALEEM TANNERIES PVT. LTD.

**DEPUTY
CONVENER**



MARDAN

MR. SHAHZEB AKRAM
IMMEDIATE PAST SR. VICE PRESIDENT FPCCI
DIRECTOR/VICE PRESIDENT, MASS PHARMA (PVT) LTD.

MEMBER



LAHORE

MR. ISMAIL SUTTAR

PRESIDENT LASBELA CCI / MEMBER EC FPCCI
FORMER VICE PRESIDENT, FPCCI
CEO / PARTNER, HUB PAK SLAT REFINERY

KARACHI

MEMBER



MR. ZAFAR SAEED

SENIOR MEMBER, FPCCI
POLYSET INDUSTRIES (PVT) LTD.

KARACHI

MEMBER



MR. ABDUL HAFEEZ MOHAMMED

CONVENER, FPCCI STANDING COMMITTEE ON SALES TAX
PROPRIETOR, UNITED AGENCIES

KARACHI

MEMBER



MR. RAZI AHSAN

ADVOCATE HIGH COURT & TAX CONSULTANT
PARTNER, BIGTHICK BURGERZ (Fast Food Chain)

KARACHI

MEMBER



MR. KAMRAN RIAZ BHARARA

CONVENER, FPCCI SC ON CHEMICALS, DYES & AUXILIARIES
EXECUTIVE, RIAZ AHMED AJAZ AHMED

KARACHI

MEMBER



MR. SOHAIL ASHRAF VOHRA

CHIEF EXECUTIVE, ABDULLAH CORPORATION

KARACHI

MEMBER



MR. MUHAMMAD IQBAL DADA

EXECUTIVE DIRECTOR, EFU GENERAL INSURANCE LIMITED

KARACHI

MEMBER



MR. FAISAL IQBAL
DY. CONVENER, FPCCI STANDING COMMITTEE ON DIRECT TAXES
IQBAL ASSOCIATES

MEMBER



GUJRANWALA

MR. SHAHID AHMED KHAN
CHIEF EXECUTIVE, SKARA CORPORATION

**HONORARY
CONSULTANT**



KARACHI

MR. ARSHAD SHAHZAD
TAX CONSULTANT

**HONORARY
CONSULTANT**



KARACHI

MR. ZEESHAN MERCHANT
TAX CONSULTANT

**HONORARY
CONSULTANT**



KARACHI

MR. ABDUL QADIR MEMON
TAX CONSULTANT

**HONORARY
CONSULTANT**



KARACHI

SYED TANVIR AHMAD
FORMER MEMBER FBR

**HONORARY
CONSULTANT**



KARACHI

MR. ALI A. RAHIM
DIRECTOR, BAKER TILLY MEHMOOD IDREES QAMAR
Chartered Accountant

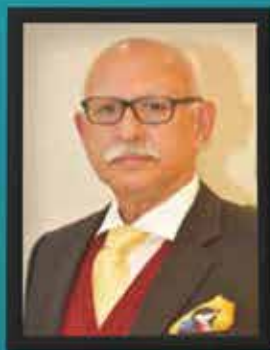
**HONORARY
CONSULTANT**



KARACHI

FPCCI Secretariat Team

FEDERAL BUDGET Preparation



Brig Iftikhar Opel, SI (M), Retd
Secretary General



Amjad Qureshi
Coordinator
Additional Secretary General - I



Ahmed Zaman Khan
Secretary
Additional Secretary General - II



Dr. Usama Ehsan Khan
Head of Research
Policy Research Unit



Syed Muzaffar Ali Rizvi
Manager
FBR & Member Affairs



Muhammad Sohail
Dy. Manager
FBR & Member Affairs

Message by The Convener Advisory Council on Federal Budget



It is our strong desire that the forthcoming budget should reflect the real economic growth of Pakistan in terms of relief to the common man, enhancement in Industrial Productivity, competitiveness of export products and improvement in socio-economic well-being of the country. These noble goals can be obtained by expanding tax base in the country, reasonable reduction in the tax rates, encouragement of industrialization specially SMEs Sector and removal of irritants and impediments for seeking justice.

There are several identifiable factors for low economic growth and low investment in the country and all the factors are ultimately transformed in the lower profitability. We believe that in today's highly dynamic global markets, competition is increasingly shaped by cost-competitiveness advantages. Unfortunately, the industrial competitiveness in Pakistan is being hampered by the high cost raw material, tax rate disadvantages, and higher financial cost and high utility charges.

Hence, the FPCCI Advisory Council on Budget are focusing to recommends policy proposals for federal budget without deviation form IMF's conditions regarding market determination of exchange rates, upward price revision of basic commodities, increase in energy tariffs and other items.

Since, it may not be possible to compromise revenue targets and relaxation in tax and tariff adjustment under such conditions, therefore, the FPCCI proposals are based on economic development by providing conducive business environment and good governance.

We believe that the tax system should be fair, transparent and justifiable enough to strengthen economy.

In our budget proposals "Tax System to Strengthen Economy" we have focused to improve SMEs, Agriculture, Industry and Tax Policy Reforms. The FPCCI Advisory Council has taken comprehensive action to present a balanced strategy that will favour business sector to grow and exchequer to earn revenue.

I express my heartfelt thanks to the President of Federation of Pakistan Chambers of Commerce and Industry for his confidence and trust in me for assigning this important task. I am also thankful to all my members of the FPCCI Advisory Council on Budget, who have worked tirelessly in the preparation of the FPCCI budget document.

Zakaria Usman
Convener, FPCCI Advisory Council on Federal Budget
Former President FPCCI

Tax System to Strengthen Economy

Preamble



Today Pakistan faces internal and existential crisis. Its solvency is under serious threat due to various reasons. We are heavily dependent on import of foods and other items. We as a nation are at a bottom level in terms of production efficiency of industrial and commercial output including agriculture products.

Unfortunately, we are operating under a political economy and are not able to focus on Creative and Cultural Economy as well which is increasing all over the world. According to a report published by the United Nations Conference on Trade and Development (UNCTAD) in 2021 states following:

- In 2019, the global creative economy's total output was estimated at \$2.6 trillion.
- The digital component accounts for about \$700 billion or 27% of the total output
- It states that the creative economy is growing faster than the global economy, with an annual growth rate of 4.5% compared to the global GDP growth rate of 3.5%.

Further, IMF's conditions regarding market determination of exchange rates, upward price revision of basic commodities, increase in energy tariffs and other items are being implemented, it is causing massive inflations, highest in last five decades.

All the above factors are pushing more people into poverty, closure of business impacting the economy and layoffs besides import restrictions. These are bringing many families slipping towards below poverty level.

Therefore, FPCCI recommends to focus on actions to be taken related:

- Micro, Small and Medium Size Enterprises
- Agriculture sector - The most important artery of our economy.
- Industrial, Commercial segment.
- Tax policies and reforms.

High cost of energy coupled with circular debt is hindering the industrial growth and with rising oil prices; it is imperative to control/reduce astonishing high circular debt and bring down the energy cost for sustainable economic growth. Power sector circular debt issue should be resolved holistically without escalating electricity cost by revamping the entire power sector, including tariff setting, efficiencies of power generating units, supply chain network and payment recoveries. If this is not done, the future of energy sector would remain at stake. The government must ensure fuel & energy supplies to the industrial sector through an elaborate and well-communicated plan of action.

Micro, Small and Medium Size Enterprises

SMEs play a critical role in the economic growth of every nation, its source of generating work opportunities, income and wealth creation, and poverty reduction. These enterprises are very important in less developed economies.

In the developed Countries around 90% of the businesses are in SME Sector, it provides approx. 60-70% employment and generally contributes 55% of GDP. We tabulate key data of some of the countries:

SMEs in India - there are around 63 million SMEs, it is around 95% of the country's business. providing employment to over 110 million people or 40% of Workforce, it is 29% of GDP and 49% of exports, it consist of 600 industrial Clusters, 7,000 artisan / micro enterprise Clusters, 2,500 rural industry clusters. India established separate Ministry of Micro, Small and Medium Enterprises (MSME), they have adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises.

SMEs in United Kingdom - There are around 5.6 million SMEs, it is around 95% of the businesses are in SME Sector

SMEs in Pakistan - Unfortunately, we do not have data to tabulate the status of SMEs in Pakistan. Therefore, assessment of SMEs are computed and analysed with reference to GDP growth, Human development Index (HDI), and bank credit to SMEs. Data sources are from relevant Govt bodies and SBP. Based on above and corroborated by surveys conducted there are around 5 million SMEs in Pakistan.

In Pakistan, all policies are tilted towards Large Scale Manufacturers. These LSM due to its nature provides lesser number of jobs besides are generally based on imported raw material, thereby exacerbating the import bill. SMEs have remained unfocused in-terms of govt benefits including tax breaks.

Further financing remains skewed towards LSM and multinationals. At the end of June 2021, SME financing limited to only 172, 893 SMEs and stood at a meagre Rs 438 billion or just over 6% of the total private sector credit in the country, this paints a very disappointing picture on the economic blueprint.

Key areas of SME contribution in Pakistan are summarized as under:

- According to the data there are around 5 million Micro and other SME Enterprises in Pakistan.
- It includes 400,000 Manufacturing units, 600,000 Service sector units and over a million Trade sector units i.e., retailers.

- Contribute approx. 40% to GDP and over 40% to exports.
- Contribution in Construction sector is around 49%, Services sector around 41% besides substantial contribution towards Wholesale & retail trade, food & beverage, and accommodation sub-sectors.
- It contribute nearly 90% of private businesses and employ almost 78% of the non-agricultural labor force.
- SMEs 2nd highest sector is the Professional, Scientific, and Technical, activities, it comprises of over 900,000 entities.

According to data there are around 80,000 large industrial units against the 5 million SMEs, they get attention and benefit from policymakers, political leaders, financial institutions, and international industrial players.

Pakistan is ranked 34th among 39 countries in the Asia-Pacific region, and its overall score is below the regional and world averages. Pakistan's economy slowed in 2019 and contracted in 2020.

Govt. of Pakistan recently approves National Small and Medium Enterprises Policy 2021. It is good step of the govt. This policy will provide path for moving forward under the current global atmosphere of digital platforms of e-commerce, on-line payments, etc.

Further State Bank of Pakistan has also issued instructions to all banks for extending credit to SMEs, this is mandatory to a certain level of their overall credit further it is also collateral free at the cost of SBP. However, due to lack of minimum documentation and awareness at the level of SMEs is a major obstacle.

The SMEs of the Country can be classified in 16 clusters for effective actions to be taken as follows:

1. Sports Goods Cluster
2. Storages & Freight Forwards Cluster
3. Fashion Items Cluster
4. Printing, Packing & Graphics Cluster
5. Garment & Textiles Cluster
6. Foot ware Cluster
7. Pottery & Ceramics Cluster
8. Leather & Tannery Cluster
9. Wood & Woodwork Cluster
10. Light Engineering Cluster
11. Food & Medicine Cluster
12. Minerals cluster
13. Agriculture Cluster
14. Dairy & Livestock Cluster
15. Fisheries Cluster
16. Travel & Tourism Cluster

State of Pakistan

Agriculture Economy

Pakistan is a large agricultural country this sector contributes around 40% of the country's GDP. Pakistan covers an area of 796,095 square kilometers. Around 87% of the land is mainly irrigated by canals and underground wells.

The main crops and cash crops are wheat, rice, cotton, sugarcane, and corn.

- Rice planting area is 2.8 million hectares, and output is about 7.2 million tons.
- Cotton planting area is 2.67 million hectares and lint output is 9.6 million tons.
- Maize production increased from 4.9 to 8.9 million tonnes in just last five years. 2016 – 2021.

The arable land area is about 22.63 million hectares. In 1961 per capita arable land availability was 0.66 hectares which has now reduced to 0.14 hectares while the population of Pakistan has increased manifold.

Our agriculture growth rate has remained stagnant over the years. In 2022 trade deficit of \$5.5 billion in food and cotton imports were recorded, it further widens the current account deficit to over 17 billion USD.

According to an estimate Pakistan's agriculture sector has the potential to overcome the current account deficit and balance-of-payment crisis within six years if agriculture sector grow at 6% to achieve the necessary economic growth and job creation.

If we focus on enhancing yield and quality of major crops according to international standards, this will produce surplus crops for export. Pakistan's agriculture trade deficit can be eliminated as many of the imported agricultural products, such as pulses and cotton, can be produced domestically.

If the agriculture trade deficit can be brought down to zero over the next three years and turned into a surplus in the subsequent three years, Pakistan could overcome its current account deficit within six years. It may be noted that the agriculture sector's sustainable growth rate directly impacts the GDP's growth rate. Pakistan GDP can register growth of 6% only if agriculture sector achieve growth rate of 6%.

Pakistan with vast agriculture resources, are recording recurring shortages of key food items, it threatens food security and resulting in inflation at unbearable burden to the common person, whereas currently food products are not easily available in the international market besides its import impact the country's balance of trade.

Unfortunately, expansion in the country's agriculture land could not match the population growth besides our poor growth in developing agriculture sector is one of the reasons that Pakistan ranks 92nd out of 116 nations on the global hunger index. Our per capita food supply is growing slowly and is still at a low level in the world.

It may be summarized that food security will no longer be an agriculture issue but a trade and macroeconomics challenge that needs to be addressed by a comprehensive agriculture policy.

Therefore, FPCCI strongly suggests an “Agriculture Emergency.”

Agriculture – Main Issues

The main issues of Pakistan is still Energy, Water, and Food Security. The agriculture economy is dominated by informal and unorganized labour as compared to industry sector. Now, the adverse impact of climate change is also impacting growth in agriculture besides low crop yield per acre. The international scarcity of food, foreign currency issues has further worsened the situation.

Pakistan must work on bringing its horticulture crops on shelves on international super-markets and retail chain. We must develop quarantine for agriculture products at the airports. Just to share that last year Vietnam Horticulture exports were around 2 billion USD. It is estimated that India horticulture produce is more than their field crops.

In 2023, it is projected that import of around 10 million bales of cotton which is higher than last year will be required therefore the trade deficit may be over \$6 billion USD.

It has been reported that Pakistan loses 12% -13% of wheat yields, which is about \$200 million in value, due to a lack of mechanisation. In addition, the country loses about \$500 million in post-harvest losses.

Central Cotton Research Institute in Multan has developed more than 200 varieties of cotton seeds, but their poor performance can be vouched that today the annual cotton output is reduced to half. If the quality of cotton seeds are up to the international standard, its production will increase by three times i.e., at 21 million bales compared to 7-8 million bales annually at present. It was in the past at 13 million bales. Pakistan’s annual needs stand at 15-16 million bales.

Further, the Country has only one laboratory and negligible cold storages. We must target horticulture to boost exports. Pakistan has abundant resources, but they are not utilised efficiently.

We have around 40 bio- technology institutions are in operation in Pakistan. However, yield improvement is now slowing down despite increase in its usage.

Pakistan import bill of pulses is around 600 million USD, whereas in case of oil seeds it is around 4 billion USD, we have crushing capacity and approx. 50% of such capacity is idle.

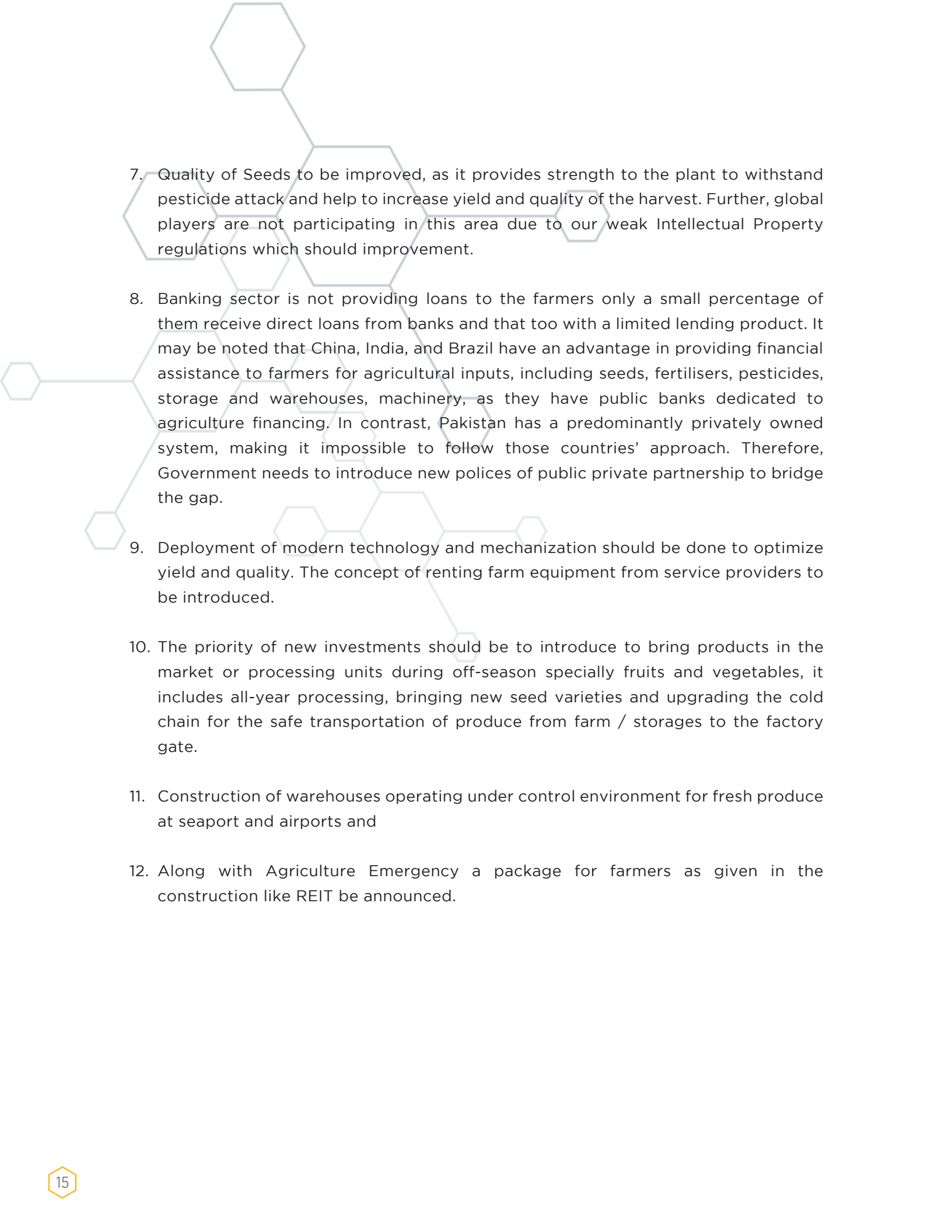
Further, increase consumption of animal products require greater quantities of livestock and poultry feed, therefore large areas of land areas are being used for this purpose, resulting in lower availability of land for crops.

Pakistan key priorities should be to increase the area of wheat as it is our major staple food. Attaining self-sufficiency in wheat results in saving foreign exchange. We should persuade farmers to sow wheat who are currently inclined towards oilseed crops, maize corn, and sugar cane, as they are more remunerative.

Proposals for Improving Agriculture Sector

Pakistan should focus on implementation of near-term reforms as compared to long term initiatives which will take much longer time to give dividends. Some of the key areas of reform includes introduction of quality seeds, modern farming, correct economic incentives to farmers, as we have seen low tax rates did not yield any benefit over the past decades, enhancing quality of education of young and adults for both male and female population. Some of the key points are highlighted below:

1. Rice production can be increased by 40% in Pakistan if we focus on all aspects of cultivation. We have witnessed that exports of maize crop increased by 100% this year primarily due to good quality seeds provided by the importers and improved process of cultivation.
2. It is important to note that world agriculture does not generate profit by getting subsidy, we must strike a balance of support prices and allocating funds to provide subsidized wheat to the people. Therefore, the process of giving incentives to farmers in terms of higher support prices to be reviewed.
3. Higher support price mechanism is also a self-destructive action. It may be noted that in the years 2000s when Philippines and Indonesia had given higher support prices to their rice farmers mainly to alleviate their poverty, it affected the common man badly as number of poor and hungry persons are much higher than the growers and they are net buyers of rice.
4. Skills of farmers to be improved focusing on productivity for consumer and agriculture products. This will also help in increasing women in the paid work force. Its implementation in the agriculture sector, is far easy and this will also help in managing urbanization.
5. Digital operations in this segment to be increased, it will create transparency in terms of maintaining its inventory and its movement.
6. Agriculture value chain to be improved, this will uplift a vast majority of the population residing in small towns and villages. The Govt priorities should be to ensure food security, with stable prices, encourage domestic cultivation of items for import substitution, efficient water utilization plan, and most importantly to ensure climate resilience. It possible through engagement of global players.

- 
7. Quality of Seeds to be improved, as it provides strength to the plant to withstand pesticide attack and help to increase yield and quality of the harvest. Further, global players are not participating in this area due to our weak Intellectual Property regulations which should improve.
 8. Banking sector is not providing loans to the farmers only a small percentage of them receive direct loans from banks and that too with a limited lending product. It may be noted that China, India, and Brazil have an advantage in providing financial assistance to farmers for agricultural inputs, including seeds, fertilisers, pesticides, storage and warehouses, machinery, as they have public banks dedicated to agriculture financing. In contrast, Pakistan has a predominantly privately owned system, making it impossible to follow those countries' approach. Therefore, Government needs to introduce new policies of public private partnership to bridge the gap.
 9. Deployment of modern technology and mechanization should be done to optimize yield and quality. The concept of renting farm equipment from service providers to be introduced.
 10. The priority of new investments should be to introduce to bring products in the market or processing units during off-season specially fruits and vegetables, it includes all-year processing, bringing new seed varieties and upgrading the cold chain for the safe transportation of produce from farm / storages to the factory gate.
 11. Construction of warehouses operating under control environment for fresh produce at seaport and airports and
 12. Along with Agriculture Emergency a package for farmers as given in the construction like REIT be announced.

Pakistan Agri-REIT

The FPCCI is recommending to the Government of Pakistan for announcing REIT rules and regulations for the agriculture sector. We like to share that this concept has been around the world for quite a long time.

This may be implemented within the framework of “Rules and Regulations” announced by the GOP in April 2015, related to “Real Estate Investment Trust Regulations, 2015”. Key points related to Agri REIT

Pakistan is an agriculture country, therefore focus on agricultures should be of prime importance, it requires far more attention than before due to global food shortages. Specially we have witnessed the recent floods destroyed lot of Agri land and its output, due to climate change people are fearing this may happen in future as well. Therefore, Govt should announce strong and efficient agriculture polices and Agri REIT will be a positive step towards this direction.

Import of food items will drain our foreign exchange on one hand and the cost of imported food items will be increasing substantially over the years, resulting in inflation and number of people going below the poverty line will keep increasing.

As the world population keeps growing at an unprecedented rate and global warming continues unabated, people are gaining consciousness about preserving earth and its limited resources, efforts are being made by the international players to further increase yield.

In Pakistan, on one hand we our operating at a very low yield as compared to international standards on all our agriculture outputs, and on the other our population is increasing far more than other countries, to feed our people and to export we must increase the yield of all our output as the land will not increase. This requires huge investment which is difficult for individuals and small landowners.

Argo-REIT has the potential to significantly transform the Pakistan agricultural landscape. Land will be developed from large areas for the purposes of selling to individuals, or other legal entities to generate high yields and to implement modern technologies.

One of the advantages of Agri REIT is that the total cost of developing a property gets divided among the final owners of the land which is usually small as compared to buying the entire property. This cost of development includes sourcing water, laying roads, preparing the land, availing scientific farming techniques, and employing more staff for the upkeep and maintenance of land and output.

People make land investments in a way to leverage the benefits of growing different crops, fruits, and vegetables to supplement their income. It is a safe option for investing as the return on investment is usually higher than other forms of investments and provides safety to investors' money.

Another aspect is that many produces use extensive amounts of chemicals to grow food, which is becoming worrisome, people are generally concerns for health, and therefore more people have started preferring organic food. As a result, there is a shift in consumer behaviour, many would now like to turn to organic farming, for which un-cultivated land has to brought under cultivation.

The global market for organic food are substantially increasing on a yearly basis. Organic fruits and vegetables are together expected to constitute more than half of the market share.

The other advantages of Agri REIT is the lower price of land, since the development cost of the land gets divided among all investors, the price of the furnished land is much lower than what it would have cost to each owner singularly.

It also offers greater liquidity than does owning physical agriculture land, as shares in most of these REITs can be quickly sold on stock exchanges. Further, it also decrease the amount of capital needed to invest in the land, as a minimum investment is just the price of one REIT share.

Agri REIT will generate big dividends and is more reliable for shareholders as compared to smaller or growth-oriented names that don't generate material profits.

It gives high return on investment. Investing in Agri REIT involves making money with less efforts and nominal risk. The long-term return on investment is much higher compared to the returns earned on shares in the stock market or in mutual funds.

The other important factor is that it is a Non-depreciable Asset, unlike residential properties such as residential plots, flats and apartments, agricultural lands do not depreciate with time. The quality of agricultural land does not deteriorate and there are no major maintenance costs involved.

Like current REIT, Agri REIT will also be an alternative asset class and will add depth to the capital market and will provide transparency in the form of comprehensive disclosures and accountability through a trust mechanism engrained in Agri REIT regulations. Agri REIT will provide an additional product choice to retail investors and add flexibility to investors and to invest managers.

Conclusion

Overall, it can safely be presumed that real estate agriculture land holds immense potential for those who want to buy small lands for this purpose. Generally, agricultural land values derive support from the earnings made from the asset itself. Debt-to-asset ratios specifically remain low in the farming sector compared to other real estate classes.

Investing in such land is a good move, specially it is not affected whether the economy is in recession or booming, as people have to eat.

Due to the above, many investors regard agriculture investments as being recession-proof.

Investment in agriculture means supporting production of all types of crops, fruits, vegetables and its processing and distribution.

Recommendations

SRO may be issued by the Government of Pakistan - Securities and Exchange Commission for the Agriculture REIT. This SRO may be in line with SRO 328(I)/2015 related to current REIT Regulations.

The Agri REIT to be in line with current REIT Management Company (The RMC) and it should also be a Non- Banking Finance Company (NBFC) to be licensed by SECP to carry out REIT Management Services in accordance with the Companies ordinance 1984 and the Agri REIT regulations to be announced by the Govt which may be in line with the rules announced for REIT in 2015. The Agri RMC to be incorporated under the ordinance read with the provisions of the NBFC Rules 2015.

This Agri RMC may also have a minimum paid-up capital of not less than Rs. 50 million prior to application for license and as per current requirement of REIT, the Agri REIT must also distribute 90% of taxable income to its investors each year.

Further Agri RMC will should also have at least 100 shareholders for 335 days of each taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months

All other relevant sections of the SRO 328(I)/2015 may be added in the Agri REIT as well.

Ministry of National Food Security and Research to be taken on board for approval of rules and regulations of Agri REIT.

Taxation and Economic Policy:

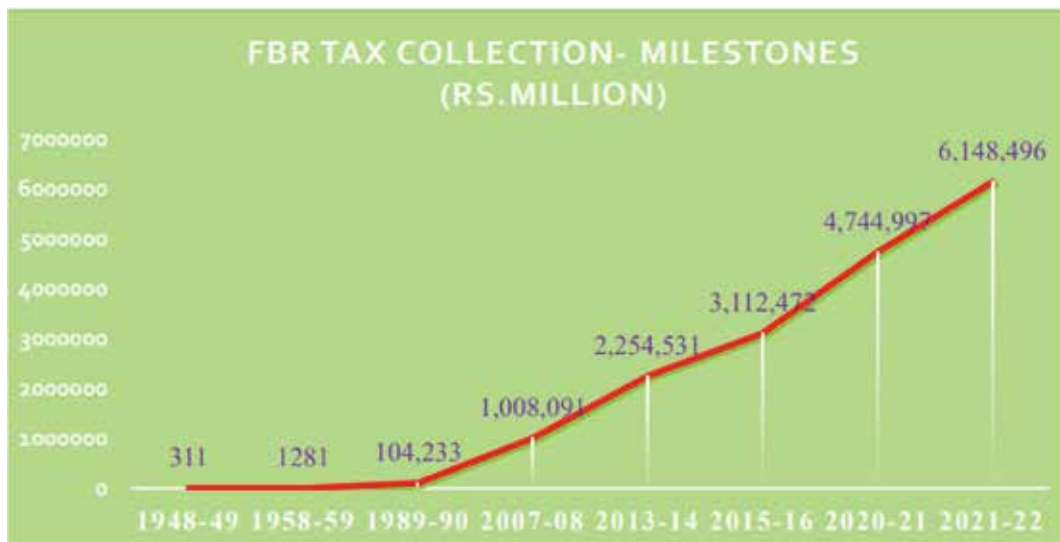
The tax system in Pakistan contributes less than 10% to the GDP, indicating that it is not pro-growth. The tax system's heavy emphasis on indirect taxation and surcharges is damaging the economy, and taxes are insufficient for debt service and defense. On the other hand, Taxpayers lack knowledge of their obligations, and major tax policy changes are not accompanied by adequate changes in the administrative framework. The tax administration lacks adequate organizations, business processes, facilities, budget, and management of human resources, which are not equipped with the current technological requirements.

1. Tax policies should support businesses to diversify overseas markets, compete in international markets, and attract investment inflows for sustained economic growth.
2. Maintaining macroeconomic stability is a prerequisite for inclusive and sustained development.
3. Generating desired revenue from the existing tax system requires the government to review obsolete laws and rates and develop an efficient administrative machinery with well-trained, well-equipped, and motivated personnel.
4. There should be harmony in the objectives of taxation with other industrial and macro-economic objectives.
5. Government officials need to be accountable and transparent in managing tax revenues for the benefit of the country and citizens.
6. The tax system must minimize differences in tax rates and eliminate discrimination in favor of or against any particular economic segment.
7. The income tax are advised to be reviewed and updated within the regime of Withholding Tax. This review is requested to be updated to discontinue the category of filer and non-filer taxpayers. For Stance, in case of filer the taxpayer has a track record of his earning and expenditures with the tax authority and could be scrutinize within any tax year. The government has facilitated the tax return filer by paying certain percentage of withholding tax and this can be updated in the tax record. Whereas in case of Non-filer, he is at the liberty by paying high percentage of withholding tax without getting into detail scrutiny or submission of any document from where he can be track by the tax authority. This illogical and unjustified classification of filer and non-filer should be discontinue immediately. As a non-filer has to submit no document to the tax authority so that he can be track to judge his income. Whereas the Tax Return Filer is totally exposed before the tax authority. It is therefore, suggested that every taxpayer should be taxed on the principle of equal parity to bring every taxpayer in tax-net to maintain transparency.
8. The unprecedented volatility in rupee-dollar parity is playing havoc with the economy. The imports of essential commodities and industrial raw materials are also under threat. Many factories are at the risk of closure or will have to face financial penalties for not being able to keep up with their production schedules and export deadlines.

Therefore, to remove the uncertainty, chaos, and rumor in the market:

- a) The Government should launch an incentive scheme to channel dollar holding from lockers and personal safes into bank accounts.
 - b) The government may exempt such deposits from any taxes if these have not been declared earlier in tax returns which will be held in local accounts for at least one year.
 - c) Upon the withdrawal of the Pakistani rupee, 1 or 2% profit should be offered as an incentive.
9. Desired level of revenue cannot be generated from the existing systems, hence, to review obsolete laws and rates and create an efficient administrative machinery with personnel who are well-trained, well-equipped, and motivated.
10. The Government must focus on rapid industrialisation and take bold steps to speed up economic growth by restoring the confidence of foreign and local investors. Trillions of rupees are hidden as undocumented money, which could be injected in the industry in order to generate millions of jobs. The FPCCI suggests that the government should announce an industrial amnesty scheme exclusively for the industry, without asking the source of income, as it would bring the undeclared hidden assets in the documented economy, besides boosting the economic activities, volume of export and more jobs. It will help raise the government's revenue base and reduce pressure on the fiscal front. Not only widening the tax base by the inclusion of undeclared assets it would assist in decreasing Pakistan's existing fiscal crisis.

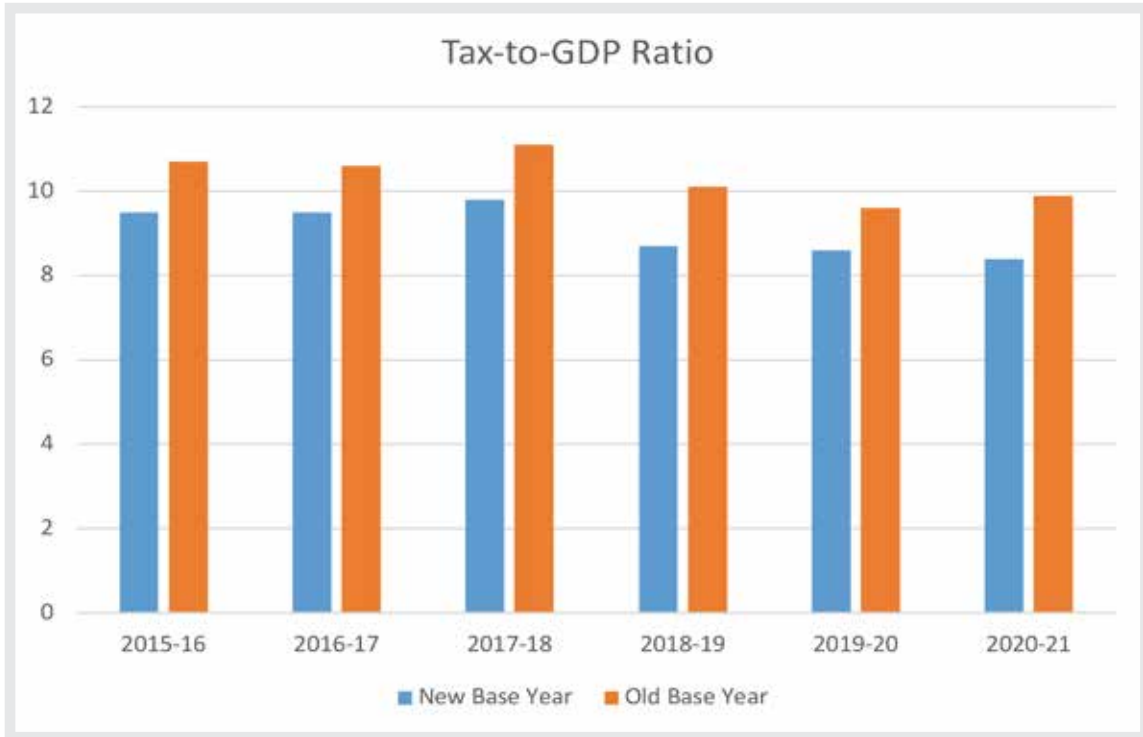
Though volume of revenue collection has increased significantly from Rs. 311,472 million in the fiscal year 2015-16 to Rs.6148496 million nearly double revenue collection during the past six years and also appreciable. However, during the period under review the ratio of tax collection (tax-to GDP) remained similar at near or above 10 percent for the last several years and considered as stagnant. Tax-to- GDP ratio (under New Base Year 2015-16) was 9.5 percent of GDP while during fiscal year 2020-21 was also 8.4 percent.



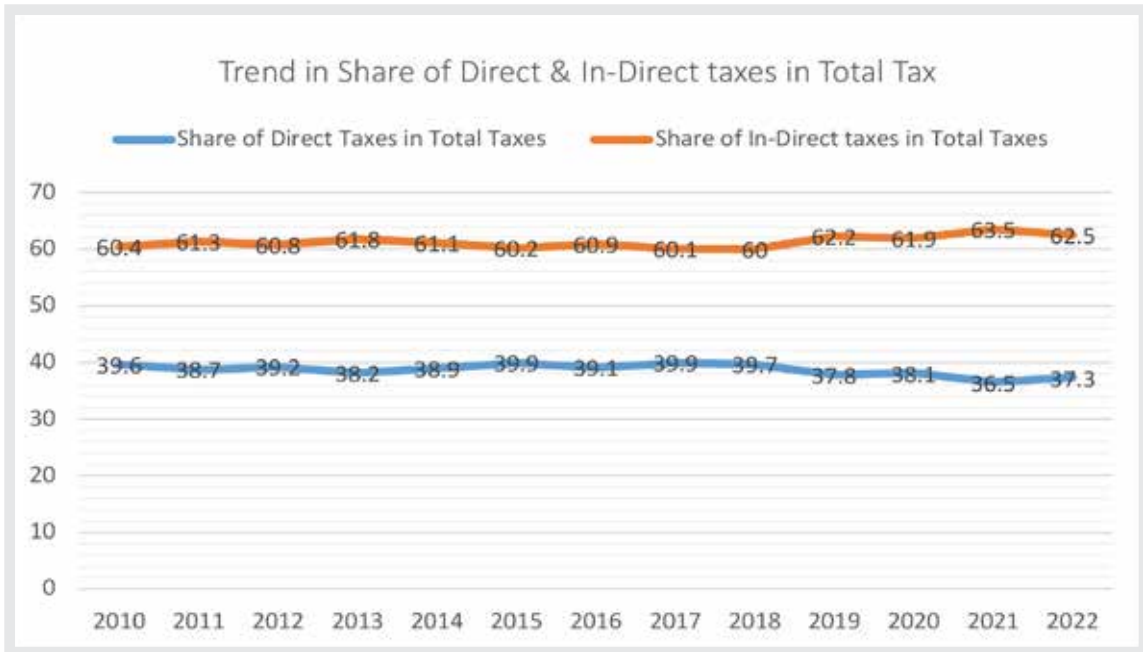
Source: FBR Year Book)



(Source: Pakistan Economic Survey)



(Source: Pakistan Economic Survey)



(Source: Pakistan Economic Survey)



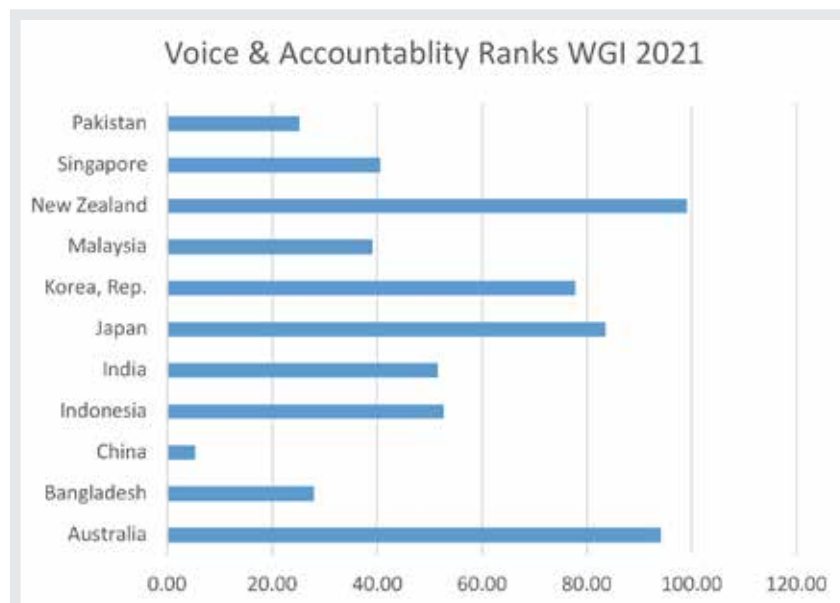
(Source: Pakistan Economic Survey)

Issues in Good Governance

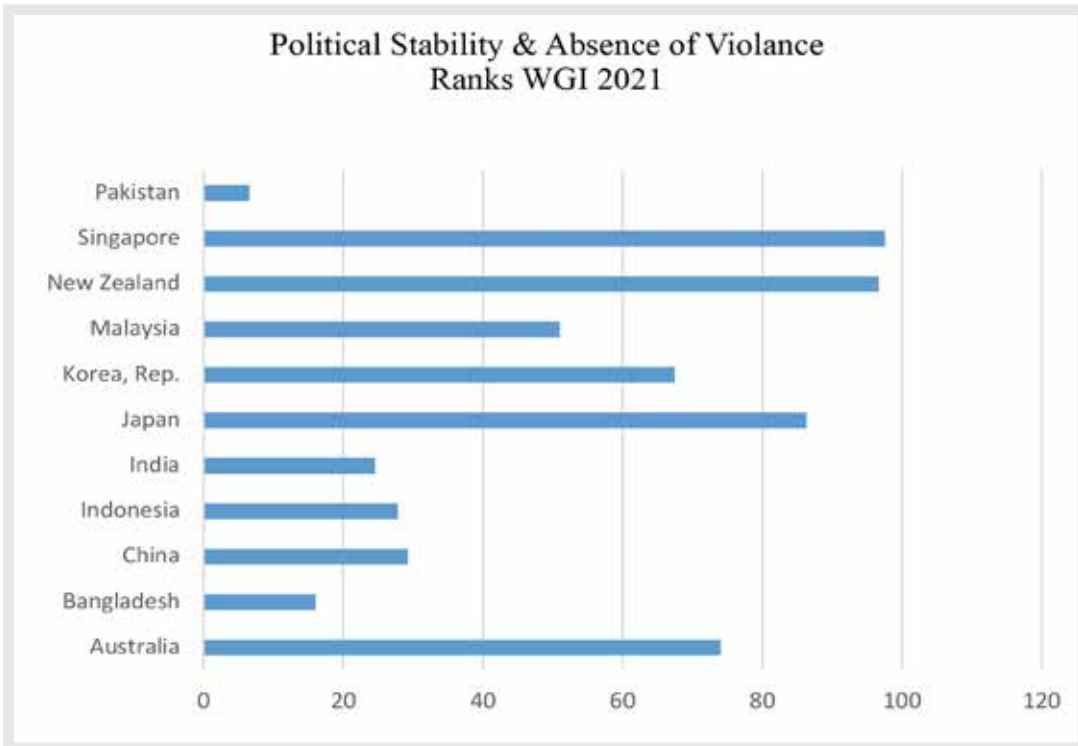
Good governance is crucial for promoting sustainable economic development and human development, enhancing human development, eradicating poverty, and promoting economic prosperity. Poor performance on governance indicators is due to political instability and violence, lack of government effectiveness, low regulatory quality, weak rule of law, and poor control of corruption.

Pakistan's position on World Bank Governance indicator (Voice and Accountability) ranked at 25th (Range 0-100, highest is the best). Similarly, position of other indicator (Political Stability and No-Violence) Pakistan position ranks at 6.6th , and on (Government Effectiveness) 37.5, (Regulatory Quality) 25.96, on (Rule of Law),27.88, and on (Control of Corruption) 23.56.

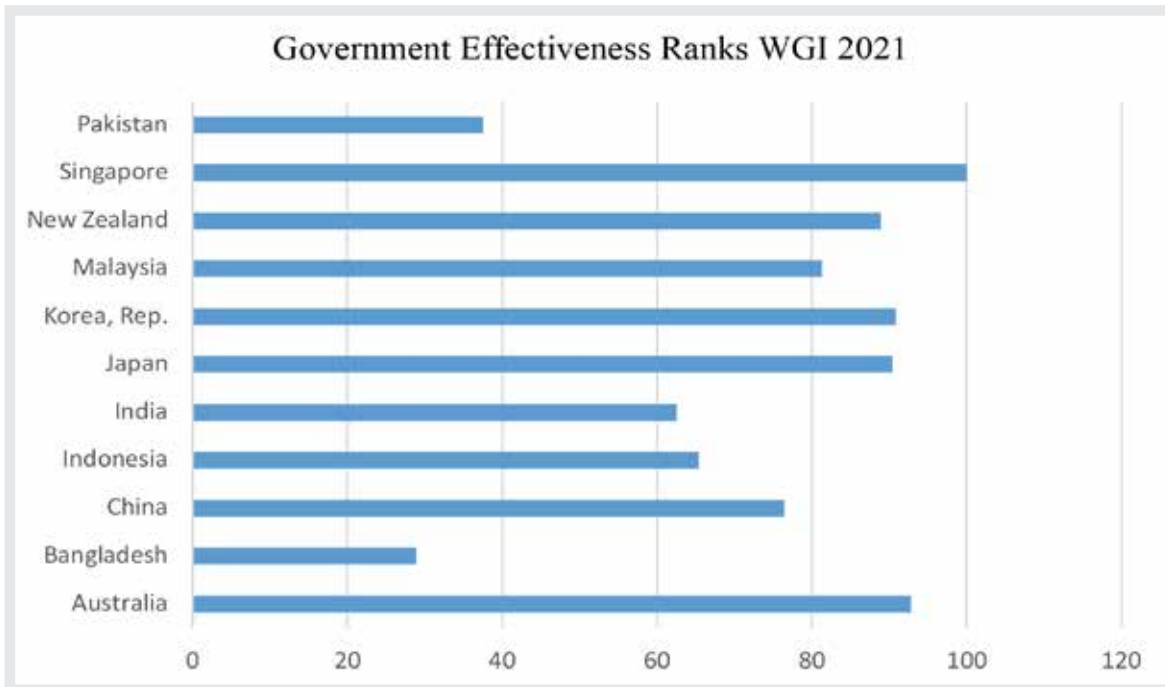
Political instability and violence: measures the perception of a possible destabilization of the political regime through elections or violence. -"Government effectiveness": measures the perception of the quality of public service or public administration. This index assesses the perception of the government's credibility through the trust given to its administration. -"Rule of Law": measures the perception of citizens of the rules that structure society and the degree of compliance with these rules. The indicator measures the perception of the efficiency and fairness of the judicial system and respect for binding contracts and agreements. -"Quality control": measures perceptions which are favorable or unfavorable to a market economy, including anti-liberal interventionist policies, such as price controls, imports and exports, and the banking system. This index allows for the appraisal of the business climate for foreign investors, for example. -"Control of corruption": measures perceptions of the use of public power in the pursuit of private gain. These indicators are rated on a scale as appropriate -2.5 to +2.5 or on a scale from 0 to 100. The lowest indicator is considered as the least favorable and above that figure the most favorable.



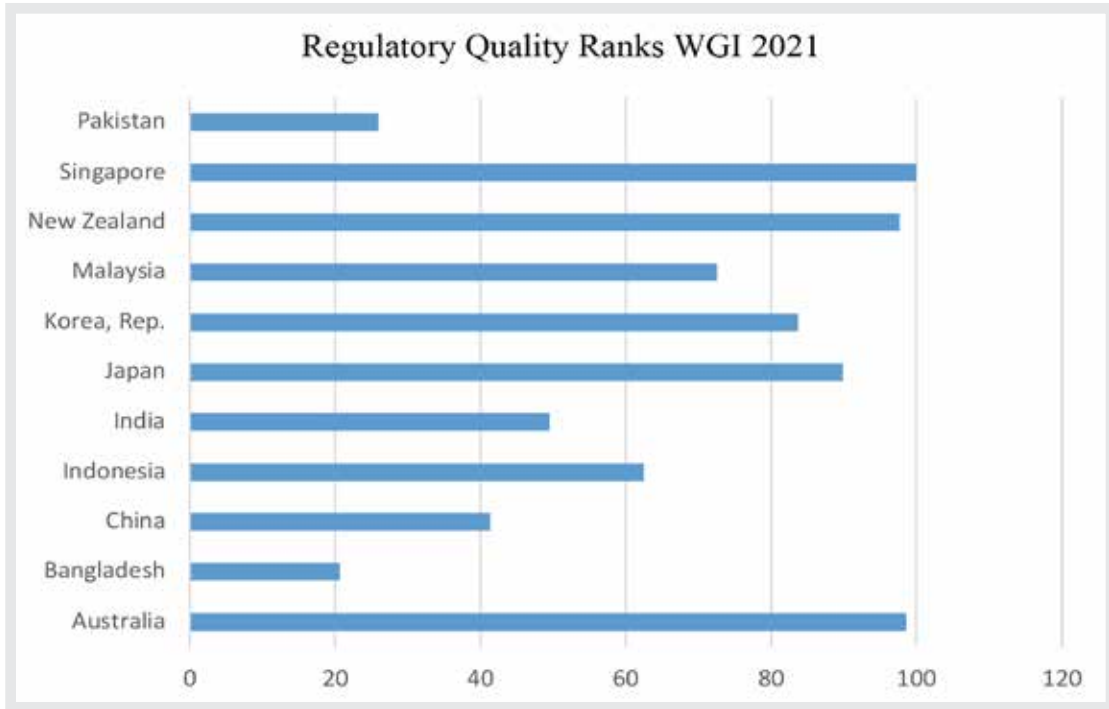
(Source: World Bank WGI)



(Source: World Bank WGI)



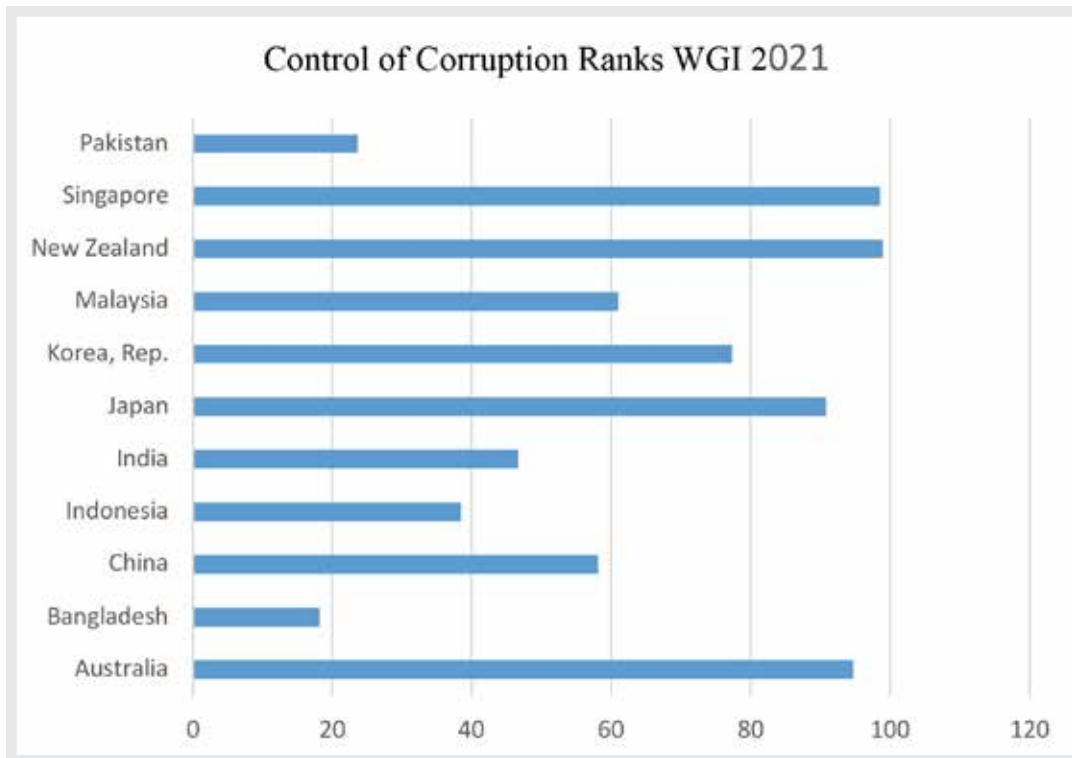
(Source: World Bank WGI)



(Source: World Bank WGI)



(Source: World Bank WGI)



(Source: World Bank WGI)

Economic growth is connected with government practices and the way governments govern both directly and indirectly. Good governance is a means to an ends like economic growth and human development.

Good governance plays an important role in the advancement of sustainable economic development. It promotes accountability, transparency, efficiency and rule of law. Besides, it allows for sound and efficient management of human resources for equitable and sustainable development. Good governance is perhaps the single most important factor in eradicating poverty and promoting economic prosperity. Good governance enhances human development and human development is the pivot around which other developmental activities revolve.

Unless, these areas of governance are not addressed/ improved, no policy would ensure desire level of economic development. On the other opportunities are arising, however, we need to efforts to gain from such development:

1. The intensity of COVID pandemic is reducing day by day and this reduction may be transformed to accelerate economic activities to create new jobs along with growth in income. But on the other hand the inflation is on rise pushing the economy to enhance interest rates. The position can be encouraged by creating new opportunities for exports and encourage SMEs.
2. To handle the situation of high inflation through higher interest rates, it is suggested to focus on enhancing productive capacity of the economy which is one of the workable feasible options, provided reforms in taxation prioritize high level of economic and commercial activities and business opportunities.

3. Reform in the tax system call for improvement to encourage investment, innovation, dynamism, competitiveness and productive capacity.
4. Removal of complicated provisions/clauses, and eliminating various strict tax penalties to encourage business environment and Investment in the country.

Create suitable and conducive conditions for public-private dialogue, while introducing reform, legislation regulation administrative provision and procedures. Promote dialogue between public sector and representative of private sector and ensure the private sector can participate in the processes.

1. Government should focus to minimize compliance and administrative costs which is only possible when the way in which different instruments designed and combine for revenue generation be match with business promotion.
2. Create fiscal environment that encourage saving, investment, industrial growth and to avoid induced distortion.
3. To review tax structures and general trend in taxes that are particularly relevant for growth. Structure of the tax system can have an impact on GDP growth.
4. High level of certainty and predictability in the application of fiscal policy may lead to higher investment which in turn could enhance economic growth, which can only be achieved by assuring implementation and consistency in Government policies.
5. Minimizing incidence of taxes could increase economy-wide productivity by increasing the share of industry with high rates of business creation.

To create an effective and sustainable budget, governments should adhere to several guidelines. These include defining priorities and allocating resources accordingly, involving stakeholders such as citizens, businesses, and civil society organizations in the budget-making process, relying on actual data and evidence for budget decisions, and being transparent about budget decisions and communicating them clearly to the public. Following these guidelines can promote trust and accountability while ensuring that the budget accurately reflects the needs and priorities of the community.



The Federation of Pakistan Chambers of Commerce & Industry

FPCCI HEAD OFFICE, KARACHI
Federation House, Tariq Sayeed Complex,
Main Clifton, Karachi, Pakistan
Tel: 021-35873691-94 Fax: 021-35874332
E-mail: info@fpcci.org.pk, Web: www.fpcci.org.pk

FPCCI CAPITAL OFFICE, ISLAMABAD
Eml: islamabad.capital@fpcci.org.pk

FPCCI REGIONAL OFFICE, LAHORE
Eml: lahore.regional@fpcci.org.pk

FPCCI REGIONAL OFFICE, PESHAWAR
Eml: peshawar.regional@fpcci.org.pk

FPCCI REGIONAL OFFICE, QUETTA
Eml: quetta.regional@fpcci.org.pk

FPCCI REGIONAL OFFICE, GILGIT BALTISTAN
Eml: gilgit.regional@fpcci.org.pk

FPCCI REGIONAL OFFICE, GWADAR
Eml: gwadar.regional@fpcci.org.pk