PROJECT REPORT

FOREIGN DIRECT INVESTMENT AND DOING BUSINESS IN PAKISTAN

Issues And Solutions

Project of SAZH Consulting LLP and The Asia Foundation

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MESSAGE FROM TEAM LEAD

This project has been a condensed labour of effort and love. It was compiled in a time when Pakistan needed to understand and solve this fundamental requirement of any emerging country.

In the process, we gathered an abundance of data from various experts, revolving around the issues, yet finding solutions proved difficult, particularly in isolation. Thus, we sought to proactively mediate between our experts through interviews, discussions and roundtables on what solutions could be generated, collectively.

We discovered that in the process of generating the solutions, the issues also became simpler and clearer. Hence, a process of distillation occurred in which the myriad of issues also began to coalesce into fewer and fewer basic problems, for which we could also devise collective solutions. We found that at times one issue had many solutions, while various issues could be solved by one solution. Hence this Report is structured to give a range of solutions bearing in mind the various issues that precede them. This process has given birth to our proposed Trust System to create investment protection for Pakistan and foreign investors.

As is with the nature of such things, not every issue could find its solutions. Yet we are optimistic, as are our experts, that further discussions, and expanded portfolio of experts will also help generate solutions to the, as yet, elusive issues.

Furthermore, for the sake of brevity, we considered it best that the bulk of the content be available on our website, for any one eager to go deeper into the details, while this Report can discuss the heart of it all. The unabridged version can be found at https://www.sazhconsulting.com/report.

We hope you can glean value and information from these efforts. We feel there is much still to be done, yet we are happy and proud to put this before you.

Syed Akbar Hussain
Team Lead
SAZH Consulting LLP

Executive Summary

This report aims to provide a comprehensive overview of the interviews and Round Tables conducted with stakeholders by SAZH Consulting LLP in collaboration with The Asia Foundation to evaluate the barriers and potential remedies regarding Foreign Direct Investment (FDI) and Doing Business in Pakistan for foreign investors. This report highlights the key barriers to influx of foreign investment and generated solutions, which will be shared with the relevant stakeholders, including policymakers, such as the Board of Investment (BOI), Ministry of Law and Justice (MOL) and other pertinent ministries and departments. The information in this report has been acquired by holding conversations with key individuals at:

- internationally recognized law firms who routinely advise foreign investors,
- the global top four accounting firms,
- venture capitalist firms,
- companies in various industries, such as power, telecom, etc. that seek and attract foreign investment,
- chambers of commerce, as well as entrepreneurs that already do business or seek to do business with foreign investors,
- various government sectors that engage regularly with foreign investors, such as the Privatization Commission, Board of Investment, etc.,
- international organizations, such as TUV Austria, the International Law Association, UNDP, World Bank, etc.

Through this process we identified the following issues and developed and proposed targeted solutions through our stakeholder discussions and Round Tables.

Issue	Solution	Implementing Body
Erosion of Investor Confidence and Trust	*Creation of a Trust System and an Investment Protection Engine consisting of various components to rebuild and secure investor trust*	Creation of a Model Trust System within the Board of Investment, supported by the Ministry of Commerce (Chambers of Commerce & various industry associations), Ministry of Law and other public and private organizations.

Lack of effective dispute resolution and inadequate contract enforcement.	*As a component of the Trust System, creating ADR Centers and drafting Rules for the infrastructure so as to allow ADR process to flourish as an alternative to the beleaguered court system, including creating rules under the Arbitration Act, 1940. Furthermore, ADR and Dispute Resolution should be modernized with technology such as ODR and AI.*	Private sector in coordination with the Model ADR Center created in the Board of Investment, supported by Ministry of Commerce, Ministry of Law, Bar Councils/Associations, and the Superior Courts. High Courts and Law Departments of provinces for introducing rules under the Arbitration Act. Dispute Resolution sector and tech incubators be engaged for creating modern techniques of dispute resolution.
Lack of certified and accredited experts in relevant field such as legal, accounting, etc.	*As a component of the Trust System, creating certification courses and conducting capacity building on various facets pertinent to FDI, such as company registration, foreign exchange manuals, share purchase and transfers, corporate governance, real estate transactions, tax regimes, etc.*	Public-Private partnership, based in the Model Training and Capacity Building Center within the Board of Investment. Supported by HEC, Vocational Training, and Professional Training organizations. Recognized by government departments such as SECP, FBR, etc. and professional bodies such as Bar Councils, law firms, accounting firms, etc. Providing investors with easy access to these Experts through a website database on which Experts can be engaged.
Political instability leading to inconsistent policies	*As a component of the Trust System, creating a liaison network, as well as strengthening the Board of Investment to advocate for consistency in policy*	Collaborative endeavour between the private and public sector through the Model Liaison and Coordination Network created in the Board of Investment, as well as other public and private organizations.
Lack of guarantees and securities in transactions and investment	*As a component of the Trust System, create a guarantee/vetting system, to pre-qualify investees, act as escrow in transactions, and provide protection in the real estate market*	Collaborative endeavour between the private and public sector through the Model Guarantee and Vetting System created in the Board of Investment with the support of government departments such as LDA, CDA, Board of Revenue, Ministry of Commerce, Ministry of Law as well as other public and private organizations.
Federal and Provincial devolution of power leading to	*The BOI in connection with the Trust system, map out the various*	Collaborative endeavour between the private and public sector

policy contradictions and inconsistencies, as well as too many organizations and departments that are nigh impossible to navigate without assistance	*policies and authorities into distilled guides for each sector, allowing investors to have the one-window facilitation required to plan out a project*	through the Model Liaison and Coordination Network created in the Board of Investment, as well as other public and private organizations.
Inconsistent opinion or advice due to lack of coordination between departments and organizations leading to bureaucratic quagmire.	*The BOI in connection with the Trust system, creates a coordination wing with various ministries and departments such as to ensure that investor information and plans are not compromised due to misleading or incorrect information*	Collaborative endeavour between the private and public sector through the Model Liaison and Coordination Network created in the Board of Investment, as well as other public and private organizations.
Security clearance requirement for foreign investors, subject to delays and opaque procedure, which inevitably discourages investors	*Create a transparent process with SECP, Ministry of Interior and other relevant organizations, with timelines, so that investors and their advisors can plan accordingly*	Collaborative endeavour between the SECP and the Model Liaison and Coordination Network created within the Board of Investment, to hold consultations with necessary stakeholders including security agencies, to achieve the desired outcome.
Foreign exchange control and hindrances on remittance of funds	*Establish consistent policies and amend the Foreign Exchange Manual to reflect the current commercial realities. Create awareness and training on the Manual so that advisors can assist investors in creating remittance plans.*	Collaborative endeavour between the Ministry of Finance, State Bank of Pakistan and the Model Liaison and Coordination Network created within the Board of Investment to hold consultations with necessary stakeholders to achieve the desired outcome. Training to be conducted by the Model Training and Capacity Building Center created with the Board of Investment.
Lack of gender balance in the workforce	*Borrow policies from Bangladesh to promote women into the workforce. Promote existing organizations working in this field to accomplish their goals.* *Take steps to discourage and curb harassment of women at the workplace.*	Collaborative endeavour between National Commission on Status of Women and Model Liaison and Coordination Network to support the inclusion of women in the workplace, by consultation with the necessary stakeholders. Collaborative endeavour with the Ombudsperson for Workplace Harassment and Model Liaison and Coordination Network to create strategies for reducing harassment and creating safe working environment for women.

Lack of SME Protection	*Borrow policies from Singapore, China and other developing countries to promote startups and incubate growth*	Collaborative endeavour between the Ministry of Commerce and Model Liaison and Coordination Network to hold consultation with necessary stakeholders and include discussion of Special Economic Zones to be created, and discussion with FBR and SECP to amend taxation and regulatory requirements.

In addition to the issues and solutions summarized above, the report also details various other barriers and structural issues that warrant further discussion.

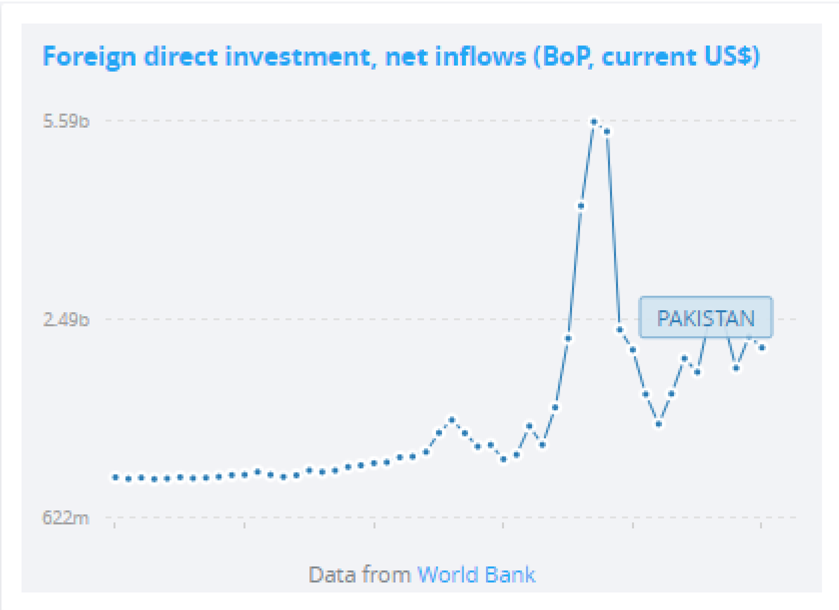
OBJECTIVES

1. The objectives of this project were to gather data from the relevant individuals in the private and public sector, both within Pakistan and internationally through individual and informal interviews/discussions and by mediating Round Table discussions in an effort to analyze the key obstacles, legal or practical, in inviting Foreign Direct Investment and doing business in Pakistan and to generate solutions for the issues raised in this process. The data is then fed into this Report, which maneuvers to effectively sift and organize the information gathered through our interviews and Round Tables. The specific objectives are listed below:

   - *To examine the barriers, legal and otherwise, within the existing domain that hinder foreign investment and doing business in Pakistan;*
   - *To understand the perspectives of all the relevant stakeholders and mediate solutions between them, which can be implemented by the private and public sector;*
   - *To provide policy recommendations that the relevant government departments should take into account to remove or mitigate the aforementioned barriers.*
   - *To provide implementation plans to the private sector, to address the issues raised and improve the FDI landscape in Pakistan*

BACKGROUND & HISTORICAL CONTEXT

2. Pakistan, a country with precarious foreign exchange reserves and increasing debt situation, needs to prioritize and devise new strategies for foreign capital mobilization. Now more than ever, it must address and evaluate the obstacles present in the way of foreign direct investment[1]. FDI plays an integral role in furthering development and economic activity in host countries. This is well documented in literature (Zakaria, 2008). In the early 1990s, there was a significant increase in the flow of foreign investment in developing countries (Calvo et al., 1996). These countries rely heavily upon FDI to overcome their own capital shortage. They attracted even more FDI following the global financial crisis 2007-08 (Duttagupta et al., 2011). Pakistan has faced a decline in FDI in the last two decades with chronically low investment rates as compared to other emerging countries. (Bano et al., 2018). According to the latest statistics on the Board of Investment (BOI) website, the top four countries providing FDI to Pakistan in 2021-22 are China, the US, Switzerland, and the UAE, respectively. This report focuses specifically on FDI and doing business for foreign investors in Pakistan.



Source: World Bank

[1] "Foreign direct investment is the net inflow of the investment to get hold of a lasting administration interest that is 10 percent or more of voting power in an enterprise working in an economy other than that of the investor. FDI is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital. This sequence demonstrates the net inflows which mean the new investment inflows less disinvestment in the exposure economy from foreign investors." (World Bank Glossary)
https://databank.worldbank.org/metadataglossary/jobs/series/BX.KLT.DINV.WD.GD.ZS

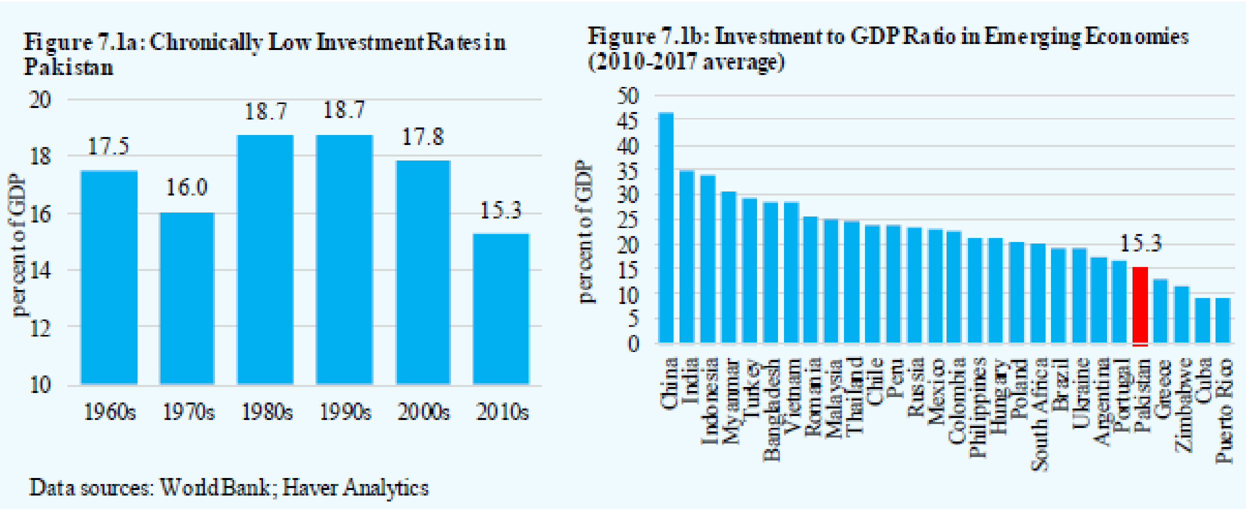
Summary of Foreign Investment in Pakistan

Million US$

	FY20	FY21	June 2021	June 2022 (P)	Jul-Jun FY21	Jul-Jun FY22(P)	Change over Jul-Jun FY21 Actual	Change over Jul-Jun FY21 %age
Foreign Private Investment	**2,315.8**	**2,027.1**	**633.4**	**260.2**	**2,027.1**	**1,479.4**	**(547.7)**	**(27.0)**
Direct Investment	**2,597.5**	**1,820.5**	**141.3**	**271.1**	**1,820.5**	**1,867.8**	**47.3**	**2.6**
Inflow	3,322.1	3,061.4	216.9	293.4	3,061.4	2,622.5	(438.9)	(14.3)
Outflow	724.6	1,240.9	75.6	22.3	1,240.9	754.7	(486.3)	(39.2)
of which Privatization Proceeds								
Portfolio Investment	**(281.7)**	**206.6**	**492.1**	**(10.9)**	**206.6**	**(388.4)**	**(595.0)**	**(288.0)**
Equity Securities	(281.7)	(293.4)	(7.9)	(10.9)	(293.4)	(388.4)	(95.0)	(32.4)
of which Privatization Proceeds			-	-	-	-	-	-
Debt Securities		500.0	500.0	-	500.0	-	(500.0)	(100.0)
Foreign Public Investment	**(241.3)**	**2,555.3**	**97.4**	**(57.6)**	**2,555.3**	**309.5**	(2,245.8)	(87.9)
Portfolio Investment	**(241.3)**	**2,555.3**	**97.4**	**(57.6)**	**2,555.3**	**309.5**	(2,245.8)	(87.9)
Equity Securities	-	-	-	-	-	-	-	-
Debt Securities *	(241.3)	2,555.3	97.4	(57.6)	2,555.3	309.5	(2,245.8)	(87.9)
Total Foreign Investment	**2,074.5**	**4,582.4**	**730.8**	**202.6**	**4,582.4**	**1,788.9**	**(2,793.5)**	**(61.0)**

Source: State Bank of Pakistan.
(P): Provisional
(R) : Revised
* Net sale/Purchase of Special US$ bonds, Eurobonds, FEBC, DBC, Tbills and PIBs

Source: State Bank of Pakistan



Source: State Bank of Pakistan Annual Report, 2018-19

METHODOLOGY

3.1. This report aims to identify, analyze, evaluate, and determine the obstacles and impediments to foreign direct investment in Pakistan and seeks to find solutions and potential remedies to these obstacles, over a two month process.

3.2. The research used qualitative methodology and has relied predominantly on primary sources bolstered with secondary sources. A total of thirty-five questionnaires in a form/survey format were distributed and filled out by leading experts from across various professions related to foreign direct investment. These included leading lawyers (local and international), leading accountants, diverse group of businessmen, international investors, venture capitalists, experts from the stock exchange, experts in the banking industry, particularly micro-finance and NBF, experts in the power, telecom, audit, tourism, food, pharmaceutical, crypto sectors, experts from the World Bank, experts from think tanks, and senior officers from various government departments, including the National Accountability Bureau (NAB), Board of Investment, Ministry of Energy (Power Division) Ministry of Law, Ministry of Commerce, Capital Development Authority etc.

3.3. Subsequent to the aforementioned surveys, 24 personalized one on one interviews/discussions were conducted with these experts to dig deeper into the issues formulated in the surveys.

3.4. This eventually paved the way for a Round Table discussion where fourteen stakeholders from across various sectors were invited to exchange their insights and expertise on the focal issues of how the existing laws, and system, act as a hindrance to attract foreign investors to invest and international businesses to work in Pakistan. This was then followed by navigating the viable solutions that can be implemented. The insights and solutions shared by the surveys, interviews and Round Table have culminated in this report.

3.5. Our Experts and Members who have contributed to this Report have done so in their personal capacity. Nothing that they have shared with us or has been reproduced here in this Report is indicative of any stance or opinion held by their respective organizations. The term "Expert(s)" and "Member(s)" will be used interchangeably, in this Report, to reflect the individuals who joined this project to share their valuable insight on our subject matter.

3.6. The secondary sources used in this report include newspaper reports, op-eds, academic papers, books on investment related issues and reports by various independent organizations.

LITERATURE REVIEW

CURRENT FDI REGIME IN PAKISTAN: POLICY & STATUTORY

4.1.1. Pakistan has implemented its long-term goal of protecting and promoting foreign investment by incorporating it in its policy framework. The country's investment policies are reflective of its aim to attract greater FDI. Thus, the rights and interests of foreign investors have also been protected in Pakistan's statutory framework. A significant act of Parliament regarding foreign investment is the Foreign Private Investment (Promotion and Protection) Act, 1976. This Act played a key role in liberalizing Pakistan's economic policy by allowing foreign investors "…to open foreign currency accounts for purchase of any assets for the production, distribution, providing of services, and extraction of mineral resources." (Khan et al., 2020). It offered concessions in income and wealth taxes, while making the state treat foreign investment in a comparable way to any other investment in the country.

4.1.2. Additionally, under Section 8 of the Protection of Economic Reforms Act, 1992, the State provides legal cover, deregulation, and fiscal incentives for foreign investment in Pakistan. It has eased procedural requirements to encourage foreign capital by placing minimum restrictions in the process. It allows foreign investors to open foreign currency accounts without being subject to wealth, zakat, and income tax deductions, and without having to declare their source of money.

4.1.3. Also, the Board of Investment (BOI) Ordinance 2001 played a significant role in attracting foreign investment by introducing a one window operations to ease foreign investment transactions. Some other functions of this Board include to identify investment initiation, offer recommendations for new incentives and to constantly be in touch with relevant ministries and departments regarding investment policy related matters. "The administrative, financial, and management decisions affecting foreign investments were communicated to foreign private investors to keep them informed (BIO, 2001)." (Khan et al., 2020)

4.1.4. The following is a non-exhaustive list of important pieces of legislation that directly impact foreign acquisitions and investment in Pakistan:

- *Foreign Exchange Regulation Act 1947 (FERA 1947);*
- *Foreign Private Investment (Protection and Promotion) Act 1976 (FIPPA 1976);*
- *Protection of Economic Reforms Act, 1992;*

- *Foreign Exchange Manual (the FE Manual);*
- *The Board of Investment (BOI) Ordinance 2001;*
- *Companies Act, 2017 (CA 2017);*
- *Competition Act, 2010 (CA 2010);*
- *Securities Act, 2015 (SA 2015);*
- *Banking Companies Ordinance 1962 (BCO);*
- *Public Private Partnership Act, 2017;*
- *Special Economic Zones Act, 2012;*
- *the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations 2017; and*
- *the Competition (Merger Control) Regulations 2016 (the Merger Control Regulations).*

4.1.5. Pakistan has ratified numerous agreements in the global attempt to facilitate and promote foreign investment. It signed two agreements in this regard through the Organization of the Islamic Conference (OIC) and Economic Cooperation Organization (ECO). The following is a non-exhaustive list of International treatises, conventions, and agreements that Pakistan is a signatory to, for the purposes of facilitating and encouraging greater foreign investment:

- *ICSID Convention, 1966, (Ratified in 2011);*
- *New York Convention, 1959, (Ratified in 2005)*
- *Agreement on Promotion, Protection and Grantee OIC, 1986;*
- *Economic Cooperation Agreement (ECO), 2005;*
- *South Asian Regional Free Trade Agreement, 2006.*

ISSUES

OVERARCHING BARRIER

FDI and a Trust System

5.1.1. The Doing Business index[2] by the World Bank ranked Pakistan as one of the lowest in the enforcement of contracts and taxation system (Ease of Doing Business Archive: Pakistan, 2022). Although Pakistan performed well in the area of company registration, no improvement was evidenced in property registration, utility connections, and the performance of regulatory authorities. Other measures such as the World Justice Project's Rule of Law index (ranked 130 out of 139 countries) and Transparency International's Corruption Perceptions index (ranked 140 out of 180 countries) indicate a clear lack of investor trust in Pakistan and the lack of FDI in the country can be attributed to the same.

5.1.2. Factors that have led to this lack of investor trust include, but are not limited to:

- *lack of faith and trust in legal system of Pakistan;*
- *lack of Human Resources with certified expertise;*
- *lack of communication channels between government and private organizations to enhance, facilitate and secure investment;*
- *lack of continuation of policies during regime changes;*
- *widespread allegations of corruption;*
- *protracted litigation; weak contractual enforcement; procedural delays;*
- *inadequate State support in the form of lack of facilitation for market entry;*
- *lack of export processing zones;*
- *lack of incentives through inconsistent, vague, and regressive policies;*
- *onerous and opaque requirements for security clearance;*
- *inadequate transparency and inconsistency in foreign exchange regulations including remittance caps.*

LEGAL

FDI and Dispute Resolution

5.2.1. Various members of our Round Table (ICSID Members, Barristers in the UK, law firms in Pakistan, members of the International Law Association, former company secretaries and

[2] "The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operation stronger protections of property rights." Trading Economics, https://tradingeconomics.com/pakistan/ease-of-doing-business.

legal heads of the biggest companies in Pakistan, such as ICI, HBL, etc. and various others from the private and government sectors) opined the weakening Rule of Law and Enforcement of Contracts as the reality of Pakistan. They shared various stories of delays in litigation, and delays in justice – regrettably including the arbitration proceedings.

5.2.2. The latter was specifically unfortunate as, ironically, it was once considered a solution, yet due to the languishing plan of reforming the Arbitration Act, 1940, and lack of judicial training in that respect, arbitration has slowly become its own problem within the system. Our members shared that referrals to arbitration in Pakistan are now considered another wedge in our justice and Rule of Law system, citing that it had formulated a single trial, into three or more distinct trials.

5.2.3. Another important development in the past decade has been the gradual introduction of mediation into the legal sphere. Various bodies such as the Pakistan Mediator's Association, The ADR Initiative, the Chartered Institute of Arbitrators, and various others have introduced accredited mediation courses in Pakistan. The Asia Foundation also initiated a Rule of Law project to introduce court-annexed mediations in Punjab. Nearly each province has also introduced their ADR Act to promote mediation and refer litigation cases in courts to mediation. The gradual uptake of mediation in Pakistan may turn out to be the solution to a lot of issues stated above, yet time will tell as the market is too young and insufficient data exists to justify a conclusion in this regard.

5.2.4. However, this state of affairs is not without hope. As mentioned there has been significant work done by the private sector, and from our conversations with our members in the government, the public sector is anxious to improve this situation. Thus, bringing these organizations and individuals together has and will continue to play a significant part in the improvement of the Rule of Law. It seems clear that ADR is the key to this problem, and further consultations on the matter, and implementations of our suggested solutions could greatly move the inertia in a positive direction.

HUMAN RESOURCES

FDI and Certification & Training

5.3.1. FDI is inherently tied to the host country's working population. They are dependent upon each other as investors wish for a skilled workforce to ensure they succeed, and workers rely upon investors to provide them with better pay and opportunities. According to Romer's (1986) endogenous growth theory, "FDI plays an essential role to economic growth through labor training and skill acquisition not only through capital accumulation and technology transfer." (Javaid, 2016) Technology and knowledge transfer have positive effects on a country's human capital leading to greater efficiency and potentially greater economic output. In this way, domestic firms can thrive from FDI and even adopt better marketing, management practices and organizational arrangements. The World Investment Report (2008) states that "FDI boosts the economy by creating employment opportunities, transfers skills and technologies, increases in productivity, and continuous long-term development in the developing countries." (Javaid, 2016)

5.3.2. One of the key issues identified in the lack of trust, is the lack of reliable personnel with expertise in various areas that an investor is looking for. This includes legal support, accounting support, taxation, real estate, company formation, corporate governance, foreign exchange regulation and various others. Our investors, wanted to simply find the people who were certified and could provide them with the relevant service. They opined at length that this was not possible for Pakistan.

POLITICAL

FDI and Political Stability

5.4.1. The political stability of a country, its economy and policies are important parts of its trust system with foreign investors. They help build investor confidence. Around the world, investors have suffered greatly for investing in politically unstable countries (Khan et al., 1999). Unfortunately, historically Pakistan has seen grave political instability with frequent regime changes leading to inconsistent policies. This is cemented by the fact that no Prime Minister in the history of Pakistan has been able to complete their terms. Sudden military dictatorships, judicial overreaches and turmoil in the parliament are certainly not cordial to investors.

5.4.2. Our members unequivocally affirmed that the biggest problem in doing business in Pakistan at the moment is lack of consistency in policy. They highlighted that doing business is nigh impossible if the government does not show consistency and sustainability towards a plan or a policy for a given amount of time, which is essential for business community to plan and execute upon. In their research paper, Rehim and Munir[3] demonstrate how widespread political instability in Pakistan has led to a decrease in FDI flow. Frequent policy changes such as, going from a more liberal tax framework to a more regressive one puts investors at risk. It not only increases the risk of doing business but also endangers investments and lives of personnel during military takeovers.

5.4.3. In our Round Table, our foremost expert from TUV Austria Pakistan shared that attracting investors in such an economically unstable climate requires incentives and guarantees. It is the role of the state to provide these as the market is not capable of providing them. Thus, his investors who browse competitively in the region would be comparing between various countries, such as Bangladesh and Pakistan. The former of which has shown consistency in policy and economic growth, hence it has become a more attractive investment option. Hence, he shared that it boils down to consistency that can be planned for. If Pakistan can make assurances to the international market that a policy or plan will be consistently implemented for the next 5-10 years, regardless of how bad the policy may actually be, it would still be capable of attracting investment, versus a policy that may be excellent from an investment

[3] *"Determinants of Foreign Direct Investment in South Asia. Bangladesh, India, Nepal, Pakistan, & Sri Lanka"* Rehim and Munir (2004)

perspective yet if uncertainty and inconsistency remains in the market, no investor would care to touch it.

FDI and Devolution of Power

5.5.1. The 18th Amendment to the Constitution devolved several crucial functions to Provincial Governments by abolishing the Concurrent Legislative List in the Constitution and amending the Federal Legislative List. This decentralization of responsibility and authority provided the context in which various institutional actors renegotiated their roles in a contested space, and the Provincial Governments' amended laws, established new institutional frameworks, developed policies and strategies, and built capacity to effectively discharge their newly acquired responsibilities[4].

5.5.2. Our experts asserted that the devolution as a result of the 18th Amendment has had major repercussions for investors looking to invest in Pakistan. In the absence of one window operations and policy consistency, investors have to also grapple with dealing with different jurisdictions that have their own set of policies that are often not in harmony with each other. The 18th Amendment devolution empowered provinces, with certain subjects vesting with the Federal Government and others with Provincial Governments leading to investors running all over to resolve issues. A leading expert on China gave an example to propound this phenomenon; if an investor wants to setup a power project, they would be running through a lot of hoops; while power generation is a federal subject, on the other hand the land where the power project is setup is a provincial subject, this in effect would lead to more processes to go through and interference from different departments in both the Federal and Provincial Governments. With different governments in the province and center, there would be no consistent policy resulting in further hindrances to potential investors

[4] (https://na.gov.pk/uploads/documents/1302138356_934.pdf

FDI and Bureaucratic Quagmire

5.6.1. According to the experts in the largest law firms, there are frequent examples of investors having been communicated a policy by one department, only to have that contradicted by another department. Following this, when the investor may approach the firm for advice, they would share a third opinion, that a judgment of the Superior Courts has rendered both policies invalid. They disturbingly shared, that almost no one in Pakistan can give a definite opinion on a matter, without provisos or disclaimers since the government itself constantly contradicts and disputes amongst themselves as to the policy or law in vogue at the moment. It is not until a case and ratio are decided by the Supreme Court of Pakistan, that one may consider a matter sorted and settled, yet the problem will not end, since the bureaucracy may not be aware of it. Hence the inconclusive advice and erroneous course of action may continue to be an impediment. They shared that an investor may come into Pakistan on the guarantee of a statutory authority, set up a project, put in the money, however, when the momentum builds, and they may engage a more experienced law firm or consultants, they are informed that a certain policy has been scrapped and therefore the investment would not be possible. They are left with no remedy, except relying on dispute resolution clauses or mechanisms, which as shared above, have their own issues.

5.6.2. Within the governance structure of Pakistan, there are so many facets that adversely impact FDI and lead to investors losing trust in the State; inconsistent policies and lack of coordination between various departments within the government, issuing policies without any kind of due diligence, careless representation, lack of effective legal remedies in case of breach of contracts with a statutory authority. Furthermore, things are further convoluted as polices are often interpreted and implemented differently on three levels: federal, provincial, and local, miring the process of investment in confusion with endless and contradictory red-tapeism.

5.6.3. Thereby, it was often repeated by our experts that there needs to be a sole source of information for international investors, and during the Round Table, our expert from the Board of Investment, along with our experts from the private sector suggested that BOI should be the nexus and coordination point for information on government policy and updated laws. The latter of which, the expert from the Ministry of Law suggested could be achieved by establishing a coordination cell with his Ministry. It became clear thereby that a deep problem lay in the lack of coordination between the government bodies themselves, the cure of which could solve the root cause of many pain points highlighted by our experts.

FDI and Security Clearance

5.7.1. Members of our Round Table pointed out that one of the most common issues, in particular with the barrier to entry that a foreign investor faces in practice, is the security clearance requirement.

5.7.2. In our conversations with various senior law firms and accountants from the big four accounting firms, who represent foreign investors, it became clear that the requirement of a No-Objection Certificate (NOC) for foreign investors, creates a disturbing perception of Pakistan and its regulatory environment. There appears to be no transparency, nor communication with the investors about the process and progress of an application for such an NOC. While the SECP is the front-facing organization with whom the lawyers engage for the NOC, it is obvious that various other ministries and agencies play a role in granting security clearance. In practice, that translates to uncertainty as to the progress and timeframe of an NOC application, which if denied, after however, many years, would necessitate that the foreign investor resign as a director and immediately sell his shares. The sale of shares is also a difficult matter, as the barrier to exit discussed below causes further complications.

5.7.3. In addition to that, through our conversations with officials from the BOI, we were told that they receive several requests where foreign investors want to come to Pakistan. The barrier to the initial stage of investment is that investors are uncertain if their investment will be safe as getting approval or rejection can take a couple of years. As per our legal experts, the only way investors find out about approval is when the SECP allows them to take certified copies of forms pertaining to the company in which the investor has invested. So, if the SECP allows them to make copies then they know that they have been officially cleared. Again, the key concern remains that they do not get an actual letter or notification from the Ministry, resultantly the entire process seems thoroughly arbitrary and opaque. This leaves an embarrassing and concerning level of uncertainty, which the experts advising the investors do not have answers to, nor do they know when or how these answers will come. Hence, this uncertainty with regards to security clearance heavily dissuades foreign investors.

5.7.4. It was insisted in our Round Table, that resolving the security clearance matter to allow greater transparency and procedural consistency is paramount to solving one of the biggest hidden issues of entry of FDI in Pakistan.

ECONOMIC

FDI and Foreign Exchange

5.8.1. The Round Table discussions with our stakeholders led to the consensus that as remittance of finances is vital to investors, in the form of profits, whether dividends or royalties or sale of shares. This issue on the profitability or exit for foreign investors and their business, relates to foreign exchange. As the foreign exchange is controlled by the State Bank of Pakistan, which, according to our experts, has regularly restricted such remittances, it has further led to crushing the foreign investor's interest or faith in the country.

5.8.2. Various experts from businesses complained that they owed significant sums to their shareholders or principal franchisers in foreign countries, yet they were not allowed to send the dividends or royalties because the State Bank has closed down remittances. This they complained only perpetuated and incentivized the illegal trade of currency and the underground economy, as they legitimately had no channels of sending money outside Pakistan, which they would be under obligation to do, due to their contracts and businesses. Likewise, letters of credit (LC) were not being opened, thus no trade could legitimately take place. Such explanations were hard to share with foreign partners, and at times it seemed necessary to active various *force majeure* clauses in their contracts to avoid further liabilities.

5.8.3. Our experts in legal and accounting firms shared that while there was a great deal of confusion and problem with the State Bank's approach, a significant part of the issue was also the lack of awareness and expertise pertaining to the Foreign Exchange Manual, which governed the transfer and caps on dividends, royalties, and other such remittances.

5.8.4. It was suggested by an expert in one of our personal discussions that the Foreign Exchange Regulation of 1947 should be repealed or heavily amended. The Act was introduced by Jinnah at the time of independence as Pakistan was in economic warfare with India as the latter hoarded the former's reserves. So, the Act was enacted to protect Pakistan's reserves. However, ever since then we have built a cultural mentality that our entire lives are dependent on foreign reserves. There are multiple issues with this perspective, our GDP on a PPP (Purchasing Power Priority) basis is more than a trillion, and our GDP on a nominal basis is $360 billion, which means the difference between these GDPs calculated is the Black Economy. Pakistan's black economy is 70% of its overall economy. Thereby, our expert commented, it leads to the State Bank only restricting the 30% and letting the 70% grow bigger.

5.8.5. Thus, in the Round Table discussions, our stakeholders identified that a substantial problem which foreign investors face is the country risk which comprises the foreign exchange regime and control to repatriate profits. Our Round Table stakeholders further pointed out that the second problem with the Act is that Pakistan is down to $9.1 billion in foreign exchange reserves (CEIC Data, 2022), which means it does not matter if the country has an economy of $360 billion because Pakistan's entire foreign investment ambitions are limited by the ability to spend $7 billion. The State Bank restricts the flow of currency through the Foreign Exchange Manual (FEM), which comes from the 1947 Act. As per our legal expert, the Foreign Exchange Manual has capped royalties thus restricting people from sending royalties legally. Every company that has to send royalties abroad to its franchiser could potentially face contractual breach liabilities as a result of the cap on the clause of royalties. One expert shared that a solution suggested to him was to establish a company in the US, which will hold his company as a subsidiary. As subsidiary payments are not capped in the manner royalties would be, he would be free to remit the money to his holding company in the US, following which he may then send the money to the actual recipient which may be his franchiser. He shared that such a convoluted solution to a simple matter of transferring money legally, should not be his only option.

5.8.6. Another reality shared by our expert in finance law and global markets is that the country's risk is not just foreign exchange, but credit default swap. Pakistan is increasingly borrowing from the international markets and has become exposed to the price of our debt being volatile depending on investor perception. Right now, he shared, Pakistan's credit rating is junk, which is an odd thing to be when it has a limited amount of debt in the international markets. Supposing that 90% of the government's borrowing is from our banks, then it is only 10% borrowing from friendly nations and international debt markets. Pakistan has started to go to the latter, which gives it access to an unimaginable amount of capital and discipline as the debt price will change every day. Foreign friendly nations help Pakistan, meanwhile the domestic banks give it PIBs (Pakistan Investment Bonds). However, the real place to borrow money is the international debt market and Pakistan has not developed a strategy on this. Countries become rich because their stock markets are connected, and debt markets are connected. Pakistan's government is not interested in these reforms, which would help considerably, yet he was unable to point out why this was the case.

5.8.7. Likewise, our Round Table participants shared the problem connected with inconsistency in how the government initially promised to pay power companies in USD but later turned back on their heels and started paying in PKR. The government is converting its own cost from USD to PKR but for commercial companies, the cost conversion remains from PKR to USD. An expert in the Telecom sector told us that the biggest issue an investor faces is the massive devaluation of the currency in Pakistan. An investor brings in USD but their revenue is generated in PKR. The rapid devaluation of the currency, therefore, means that regardless of the performance of his investment an investor does not get back a considerable return to justify Pakistan as his investment choice. A continual and predictable devaluation trend could be handled by managing the capital, but when unexpected fluctuations happen that the investor hadn't expected then it demotivates foreign investors from doing business here. An investor having millions to invest could look at other open markets, which are stable for making investments.

5.8.8. Another source within UNDP, shared that various countries exercised foreign exchange control by incentivizing local production of goods that were imported, or bought using USD, and converting your indigenous production into export driven growth. This opinion was echoed by various senior members in our Roundtable including the department of the Auditor General, as well as various other experts. It became clear that further consultation on this matter was vital, as the resolution to the foreign exchange is interconnected through correct policies on trade and manufacturing.

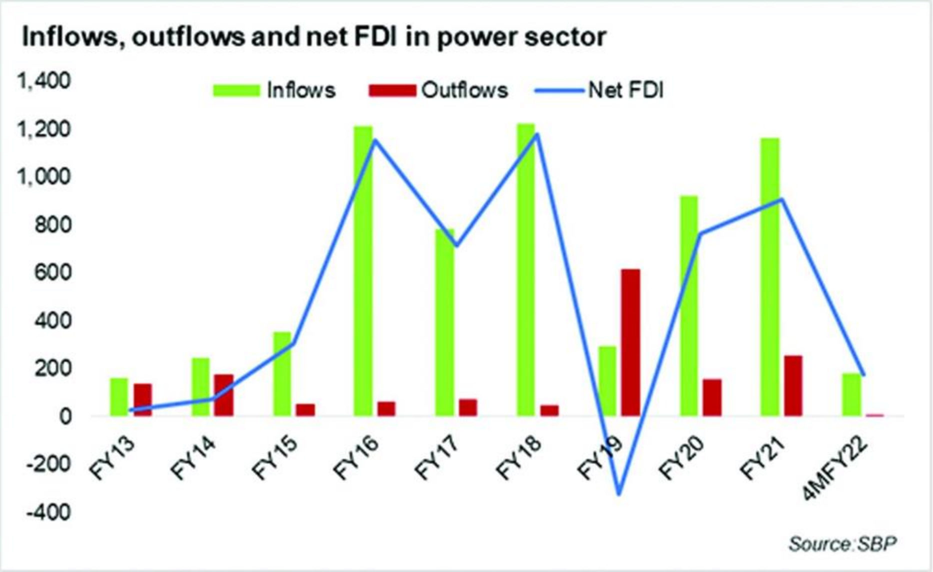
5.8.9. Citing the above, with the immense problem surrounding foreign exchange regulation, the Round Table, after due consideration suggested that while repealing the Foreign Exchange Act would not be practically or politically feasible, a surgical amendment of the Foreign Exchange Manual should definitely take place. For the same, the relevant experts and stakeholders in the economic and finance sector should be consulted, as this was a macro problem, which was causing micro disturbances.

INDUSTRY SPECIFIC

FDI and Power

5.9.1. Pakistan's energy sector is an essential part of its economic productivity. Research shows that the level of energy production is directly linked to the country's progress. In 1994, the government introduced a Private Power Policy (PPP) that included many generous incentives for private firms interested in the installation of power plants in Pakistan. As a result, Pakistan received foreign investment of US$ 3 billion (World Bank 2001). The FDI received by the power and energy sector was around 35.58 per cent in the 1990s. Thus, contributing substantially to the overall economic growth. However, this soon declined as the country faced international sanctions due to conducting nuclear tests.

5.9.2. In the 1990s, the European or US companies were investing in the Power Sector. However, as per our experts, now there are very few American or European investors because their governments are not lobbying for them. However, as the Chinese government has grown a stronger relationship with the Pakistani government, therefore, their companies are interested. Same applies for Korean investors. Also, the recent China Pakistan Economic Corridor (CPEC) has sifted Pakistan's focus to coal power generation as China contributed majorly to the FDI



5.9.3. Although, the Business Recorder (2021) states that there has now been a decline coal investment around the world and that there has been a shifting trend towards renewable and alternate energy. “China, a key investor in Pakistan has also halted all its coal investments abroad. Not only that; it is ambitiously transitioning locally; as well as in its global investments toward green future.” As of now, Pakistan has shifted its focus to producing sustainable energy and aims to increase the share of renewable energy to 30% by 2030. Unfortunately, there does not seem to be any substantial changes in the country’s energy portfolio and policies to implement this goal. Hence, to tackle environmental issues like the recent monsoon flood and to increase FDI and attract more investors, it is high time Pakistan prioritizes sustainable energy.

5.9.4. According to our experts, international investors have numerous concerns when it comes to investing in the power sector of Pakistan, such as the short payback period and the high discount rate. “Due to non-financial supports, incomplete working capital requirements, weak consumer service infrastructure, and operating and maintaining equipment, the RE policy always failed due to political issues in Pakistan.” Additionally, Pakistan also has operational issues, like weak implementation, political influences, and unrealistic targets.

5.9.5. Furthermore, climate change has become a key concern over the last 10 years (Alola et al., 2021; Fareed et al., 2021; Adebayo et al., 2022a; Adebayo et al., 2022b) for politicians and economists alike. (Nuvvula et al., 2022; Wen et al., 2022). The future of our economy depends on reliable energy resources (Miao et al., 2022)

5.9.6. When discussing Pakistan, it is clear that the country is in the midst of a severe energy crisis, with the potential to have damaging consequences for the national economy (Tanveer et al.,2021). In this situation, developing countries, such as Pakistan, need massive energy to support their industry and large populations (Ikram et al., 2019, 2020). This is where the conversation for sustainable and green energy must come in. Majority of investors in the power sector are foreign investors.

5.9.7. Leading professionals in the power sector with over 20 years of experience brought up how the inconsistency of government policies halts progress and development. For example, after signing a contract for 20 years, within 10 years the new government begins to re-negotiate the deal made earlier. This not only creates a bad reputation for Pakistan but destabilizes our Power Sector. It further leads to uncertainty in the life security of the power project, which is normally 25-30 years according to the PPAs (Power Purchase Agreements). This made the Chinese investors in power projects reconsider their investment plans in Pakistan and reduce their investment.

5.9.8. According to one of our experts, who is the Chief Legal Officer at a RLNG Power Plant, to establish a power plant, there is no single organization involved but multiple organizations from the federal down to district level, each with their own requirements and policies, to the biggest such as NEPRA which finalizes the tariff, to a district-level NOC for something pertaining to the construction of the project. Due to the lack of coordination between various such organizations and the lack of a one-window operation, each of these organizations with their opaque, onerous requirements become hurdles in the way of foreign investments. Unfortunately, this information (regarding all the relevant stakeholders, departments, or offices which a project has to engage with and seek documentation or approvals from) is not available nor has been appropriate mapped by any department or organization. This gap in information, which ideally should be publicly circulated and available to investors, leads to various projects learning about these problems on-the-go, adding to their cost, complexity, and frustration.

5.9.9. Another source of frustration was shared by an expert formerly in WAPDA and others expert in the Power industry. It pertains to lack of planning within the decision-making bodies. As well as, using indigenous resources, such as coal in Thar, for instance as opposed to imported coal which would cost the country significantly more in terms of import bill, foreign reserves, and power generation. They informed us of the practical reality that a coal-based power plant was established near Thar, and it had been presumed that it would use the local coal available in Thar. However, for reasons, it was going to use imported coal. Our experts shared that the cost of importing the coal and subsequently shipping that from a port such as Karachi or Gwadar to Thar would be exorbitant, and eventually lead to an exceptionally prohibitive cost of power generation of that particular power plant. In reverse, a power plant was set up near Sindh where imported coal would be cheaper to logistically transport to, however it was designated to use local coal from Thar. They asserted that this did not pertain to the debate of using domestic or imported coal, but how execution of such a decision can be compromised by other decisions. This situation and reality conveyed the bizarre decision-making taking place within the spheres of the power industry, and the lack of transparency in the bureaucratic quagmire, was recognized as the problem in such matters.

5.9.10. Hence, investors in the power sector have to deal with such unnecessary and laborious bureaucratic hurdles. It is a key requirement to map out all the stakeholders and relevant organizations involved in such processes, so as to devise the way forward, as well as create consistency and transparency in the decision-making process.

FDI and Telecom

5.10.1. The telecom sector in Pakistan has been growing and expanding at an impressive rate for the last 15 years. FDI has had a huge role to play in this. Reports show that most of this FDI amount comes from United Arab Emirates, United State of America, Norway, and Republic of China with more than 70% of the Total FDI in Pakistan telecom sector. The leading country, which has shown great interest in Pakistan telecom sector is UAE. (Pannu, 2010)

5.10.2. One of our key members is the Head of Mergers and Acquisitions in the leading telecom company in Pakistan. He shared that for an investor the hardest problem is that they cannot take their money outside. This is due to wavering policies and decisions pertaining to foreign exchange control, exercised by the State Bank of Pakistan. For instance, if they have to pay 100 million dollars as dividends, they must process it into installments depending on what the SBP policy at the time allows.

5.10.3. Furthermore, he shared that inflation and the change in USD price against PKR, creates greater uncertainty as the company earning in PKR has to remit profits and payments in USD. With further devaluation of the currency, our expert shared, the return ought to be so high that it can cover the devaluation, as well as give a real return to the investor. The real problem, though, is that if there is a continuous trend of devaluation, it can be adjusted in the cost of capital and discount rates, but the devaluation we have seen in the last two years was not predictable, and due to the sheer size, it is something for which they could not account. Hence, the revenue that they are earning in PKR becomes quite risky and makes their business unviable.

5.10.4. On top of that, as per our expert, the State Bank has increased the interest rate, and people who had borrowed are finding it extremely onerous to pay back. Any investor that comes, brings equity, and takes debt, a combination of which creates cost of capital, which has increased massively hence for the investor it is unprofitable already.

5.10.5. A critical issue for this sector along with various others, is the above-mentioned requirement of security clearance and the fact that the investors are not notified of their approval, if any. Only when certified copies are given would an investor know that he has been approved. Our expert told us that the Telecom sector requires security clearance from Pakistan Telecommunication Authority (PTA), which can take months to years for security clearance, in the process of which it most likely asks the Ministry of Interior and others before giving the clearance. Recently, some foreign investors interested in investing in his company applied for PTA's approval and the process had been going on for a long time. Due to this delay, the investor left, only for the PTA to then share that he had received approval, at which time it was useless. He stated that they needed a transparent system that can provide feedback and not leave the companies in the dark about their applications for security clearance.

5.10.6. Another issue, shared by our expert, is that PTA has been ineffective in implementation of the right of way policy and the lawmakers do not even include PTA in the decision-making. An example was shared that when the Telecom operators want to launch a Tower in DHA, they are asked a different amount than when they want to launch a Tower in Bahria. The prices vary and this goes against the policy. Yet there is no remedy or accountability.

5.10.7. Another substantial concern faced by the Telecom industry is their need to buy Spectrum to operate, yet they shared that they are obligated to purchase the spectrum in USD as opposed to PKR from the government, specifically PTA. This is unfair because the whole purpose of buying Spectrum in Pakistan is for the country. The telecom company is earning in PKR yet is being forced to not only pay their investors in USD (which is justified as they are foreign investors), yet they are expected to purchase USD and pay the Pakistan government as well in USD (which is unjustified in their eyes as both entities, telecom and government, operate under PKR). The price of spectrum, 15 years ago was USD 291 Million, yet now it has escalated to USD 450 Million. (Business Recorder, 2022) They were able to cite no justification for this practice or this policy. Beyond which he shared that, it is difficult to resolve this and other issues because regulatory bodies like the PTA, FBR, etc. targets Telecom industry as an easy cash cow. Hence any concern or issue raised is met with scorn and the assumption that the industry is attempting to waylay its responsibilities under the law. To which, he shared, that telecom is the most heavily taxed industry in Pakistan, and his company has been regularly dealing with the FBR and PTA or various disputes.

5.10.8. Our expert shared that Telecom is an easy target for the government as it is a highly organized sector and there are only four to five big operators in Pakistan. Everything they do is documented and everything is electronic. He cited that sustainability in such an environment is not positive, nor are his investors citing any positive indication of their interest in continuing to invest in Pakistan, as they feel the government itself is hostile to the sector.

FDI and SME Protection

5.11.1. Pakistan does not offer substantial protections to its Small and Medium Enterprises. This issue shared by our expert in TUV Austria became apparent from the fact that often SMEs are taxed as much as big businesses, which impacts their growth.

5.11.2. He highlighted that Pakistan's service sector is 56% of our GDP and we imposed the greatest tax on it. There is a perception according to him that the economic plan seems to be to take care of certain textile industries and ignore the collective contribution of others. He made a comparison with Singapore, which has a phenomenal reputation of collection and conviction as regards to taxation. He shared that we have a complex taxation regime with varying degrees of taxes including service tax, corporate tax, and minimum tax summing to 30% tax the entire year, then 15% tax on dividends and now we have super taxes. Due to this burden, and the lack of education amongst the population on tax management, people attempt to evade taxes rather than manage them.

5.11.3. He continued that when it comes to SME protection, in the service sector, a minimum tax on revenues is imposed. The tax deducted, over, and above, liability cannot be claimed in cash. If you have an invoice of PKR 100,000/-, then in Punjab 13%, in Sindh 12%, in KPK 13%, and ICT 14% of taxes are imposed. Apart from the invoice, TUV and other companies are required to submit sales tax within 30 days. Whereas, he compared with their office in Bangladesh in which, when an invoice is sent with an added GST amount, then the onus of paying that tax (services) is on the user/consumer, not his company. He said that all over the world, services tax is paid by the consumers. Thus, in Pakistan, he shared that all the burden is placed on the company providing the service, possibly because collection-wise it is an easy target. He complained that Pakistan does not even have a single portal for all the provinces on taxes. This places an additional burden on SMEs who may not have the information or infrastructure to handle such operations.

5.11.4. He shared that such onerous requirements and inequal burden, results in startups and SMEs leaving Pakistan.

FDI and Microfinance

5.12.1. Our expert, from the Pakistan Microfinance Network was asked to share the issues his member companies who were micro-finance banks were facing in attracting foreign investment. He shared the common problems that nearly all industries are facing, i.e., inconsistent policy, rule of law, inflation and foreign exchange concerns, etc.

5.12.2. One issue he shared in particular was part of the environmental crisis. Often banks give individual small loans to working people who then invest the same in their small businesses, yet no one in the MFB market offers any protection against environmental damage. On a microfinance level, environmental issues/force majeure is a big problem. He shared that due to Pakistan's investment environment, foreign or local investors are not investing in climate change or environmental disaster risk management. The need for this was readily apparent, as seen in recent floods, yet the options available to rest of the banking sector, such as disaster insurance, are not being offered in micro-finance due to a lack of government policy and incentive for the same. He shared that it would be thoroughly unsustainable if we continue to ask for foreign or donor aid to resolve this matter, and the government needs to invite policy makers to make sustainable business plans for this missing sector.

FDI and Real Estate

5.13.1. An Expert shared that the first investment that an investor makes, usually, pertains to real estate. However, due to our complicated and opaque land registration and transfer procedure, there are countless delays, unexpected expenditure, and nearly infinite litigation on ownership of real estate. He shared that in various other jurisdictions, such as Singapore, the state takes responsibility for ensuring that land purchase and title is secured. However, in Pakistan, unfortunately, according to our Expert, the relevant authority, such as Board of Revenue, Lahore Development Authority (LDA) or Capital Development Authority (CDA), while charging and owning the process of recording and transferring title, does not get involved if an objection arises as to the transaction. For example, he shared, that an investor may buy land from a person who on the record of LDA owns that land. The investor will make payment and assume that the transaction is concluded. However, another person may arise, who challenges the purchase stating that the land is in fact owned by him and may approach the court to block the transaction or ownership of the investor, and return title to himself. Now in this process, the investor is innocent, and may have done everything by the book, yet the authority who aided in the transaction and assured title of the first owner, who has been paid, would not intervene and stand by their assurance of title, leaving the investor to engage in a dispute with this new purported owner. This he shared, greatly reduces investor confidence.

5.13.2. This is further compounded by the fact that our system has multiple stakeholders that include *patwaris*, Board of Revenue, Land Development Authorities, settlement departments and other organizations, which may be needed to verify ownership and be involved in the transaction. Pakistan has not simplified and digitized this, even though reforms had been planned decades ago, yet implementation is still not complete. Hence, now an investor is to be advised that, title ownership as declared by a *patwari* or LDA or any other organization, is not an actual guarantee that it is correct or secure. He will have to account that there most likely will be litigation, frivolous mostly, to harass the investor. This will necessitate the investor to add this litigation to the cost of doing business in Pakistan. This could be easily resolved if the bureaucracy and land record could be simplified and the state stand by its record on title, and then stand by the investor. In Singapore, as previously mentioned, our Expert shares that if such a dispute arises, it is between the state and the purported original owner of the land, and the investor is not involved, as the state acts as guarantor of the title. Thus, he recommended that Pakistan needs a simplified and digitized system for land record, and a similar guarantor system, or protection system for investors who are investing in Pakistan.

SOCIAL

FDI and Gender

5.14.1. It is a well-known fact that there is a disparity in Pakistan when it comes to gender participation in the workforce. Women are not part of the workforce in the same ratio as men (Braunstein, 2019). Although it has improved over the years, female labor force participation in Pakistan still stands at 25%, which is comparatively well below the countries with similar income levels, such as Bangladesh (Makwela, 2022). This consequently often leads to cultural, familial, personal, and professional stagnation. Recently, researchers have begun to explore and study the gender dimensions to neoliberal economic policies to see whether they affect men and women in the same ways (Blanton et al., 2015). Women's empowerment through increased employment has been a priority for developing nations like Pakistan.

5.14.2. We spoke to stakeholders, from social entrepreneurs to the World Bank, who have done extensive work on gender inclusivity and increasing women's employment in Pakistan. It was a general consensus that involving women in the economy is imperative to increase FDI and improve the economic condition of Pakistan. In the status quo, industries that could benefit greatly from involvement of women are deprived from achieving potential prosperity.

5.14.3. Through our interviews and the Round Table, we discovered that the key issues that women workers and women in business face are lack of opportunities and training, cultural hurdles, lack of financial support and complicated procedural requirements. Owing to the lack of flexible work opportunities, for instance the ability to work from home, part-time or freelance work that would encourage and enable them to enter the job market on their own terms, around 40% educated women in Pakistan remain unemployed (Tribune, 2021). Moreover, in a population of one hundred million, thousands of working women are not registered as workers (Radaelli and Rahman, 2021). For our stakeholders, the countries interested in women empowerment would make active efforts to ensure that women are employed at sea level and on higher level positions as well. Whereas in Pakistan, on a cultural level, women are not actively encouraged to work, irrespective of their qualifications. They are often dissuaded by their families from taking jobs as it is believed that a woman's place is only in the household doing domestic and child-care work. These biases then seep into the mindsets of employers further disadvantaging women.

5.14.4. Another importance issue they highlighted was the lack of support offered by the financial sector to women. There is not any drawdown process present. When women go to take out loans, banks arbitrarily question them more than they would from their male counterparts about the purpose behind the loan and the amount of loan required. In such cases, banks usually go to their big customers and ask them the number of women workers and based on the number, they give out loans. Therefore, they have to rely on only small-scale loans from the private microfinance sector.

5.14.5. Added to that, it was mentioned that complicated and arbitrary policies and procedural requirements often dissuade small-scale business owners from registering their companies with the SECP. We were told of first-hand accounts of women who hired house tailors and sold clothes to small markets in Anarkali, Lahore. They criticized SECP for how difficult they have made the requirements to maintain the company's entry and exit compliance. They stressed that we need to make rational policies in the SECP that if a company does not generate revenue, then it should not be fined. During Covid-19, one of them registered an online music company but then could not operate it due to multiple engagements. Recently, her company was fined PKR 70,000. This shows that the process of closing a company is ambiguously long and difficult.

5.14.6. An Expert who formerly worked as an Advisor at the Federal Ombudsperson for Harassment at the Workplace shared that a fundamental issue in gender participation at the workplace was the concern about harassment. While the various Ombudsperson offices are working hard at curbing the problem, they are under-resourced. He shared that one particular requirement under the law is that all organizations share the code of conduct and law pertaining to protection against harassment prominently at workplaces, however, it was not clear if all organizations complied with it. Likewise, each organization is to create a committee that would be available to all to register a case on harassment, which is to act as the first line of defense as far as workplace harassment is concerned. However, at times, these committees do not exist, or the employees are not made aware of their existence, or they comprise of all men, who may not represent the diversity required in such committees. Inevitably, such cases have to reach the Ombudsperson, however, as of late, the enforcement of orders of the Ombudsperson were constantly challenged in the High Courts, defeating the purpose, as the stronger parties could bully the women into submission. It was shared that if harassment were successfully handled and curbed, the bigger social concern for women participating in the workplace, would be mitigated.

FDI and Environment

5.15.1 One factor which is often ignored when it comes to foreign investment is its relation and impact on the environment. Historically, corporations have played a massive role in causing mass pollution, oil spillage and the release of greenhouse gases etc., in their host country. However, through our interviews, we found out that with increasing awareness and climate change discourse coming to the forefront, corporations have been making active efforts to ensure that they comply with the environmental laws of their host country. In today's world, big international corporations would not want to be involved in an environmental damage controversy and hence take active efforts to avoid a PR problem.

5.15.2 Speaking on the Environmental laws, experts for the development sector explained that foreign investors are quite concerned when it comes to adhering to environmental protection laws. They are sensitive to the industry's set-up with their investment and ensure they are not damaging the natural resources. Now when foreign investors enter into a new market, the business sector has to consider these points before making a business package to offer to the world.

5.15.3 If we look at the example of Sialkot, which is one of the manufacturing hubs of our country, our members added that they have taken it on themselves to ensure efficiency and are no longer relying on the government. From the perspective of investors, it is highly profitable. However, if you look at it from the perspective of sustainable development, their industrial waste flows into the green fields with mass level environmental damage being done by the industries. Hence, a robust environmental policy with enforcement is necessary to balance the interests of the private sector, to whom profit is the only concern.

SOLUTIONS

PRIVATE IMPLEMENTATION – TRUST SYSTEM

Overview – Investment Protection Pipeline

6.1.1. A key proponent of this Round Table and Report was participation and ownership of the private sector. Thus, throughout the interviews and Round Table, requests for solutions to the common problems were put before our members. From it a series of solutions came into being that the private members of our Round Table felt could be taken up by them and implemented to create an environment conducive to investment.

6.1.2. As a result, our members agreed to work on an investment protection pipeline that could actively work on eliminating the trust deficit investors have in the government, institution, business environment and legal system of Pakistan. In essence, a trust system that could address the substantial deficits in investor confidence.

6.1.3. The distillation of the key qualities that this Trust System could encapsulate would be:

- *A Database of Certified and Trained Experts to guide the Investors;*
- *A Dispute Resolution System, which would act as an alternative to the traditional court and litigation system;*
- *A Liaison and Coordination Network, which would connect investors with various government departments, chambers of commerce or any other stakeholders. This would minimize misinformation and confusion on policy matters, and provide support to the investor entering a new territory;*
- *Guarantee and Vetting system, which would allow investors a level of safety and security. There could be a database and list of pre-vetted/pre-qualified investees from which guarantees and feasibilities could be prepared for potential investors. Another attribute would be the process of an escrow system for transactions, as well as a form of real estate protection.*

6.1.4. Our experts, at the Round Table and throughout our discussions, were excited about the prospect of creating our own solutions without being reliant on the lethargy of the public sector. It was accepted, that while the private sector could not solve all the issues on its own, and there was still a massive role of the government in the scope of FDI, we could create patchwork solutions until the state could fix the larger gaps. This would also ferment an identity and ownership over the problem, so that the trust could start from the root, which is the private sector.

6.1.5. The above shared components (which have been detailed below) of this trust system could be encapsulated in a single Model Investment Protection Pipeline, which could have one or all of these branches within it, to offer trust and confidence to the investors coming in. A healthy competitive market of such Investment Protection Pipelines would appeal to investors who may be spoiled for choice.

Certification & Training

6.2.1. The key policy takeaway from our members concerning this issue was to improve capacity of local talent and spread competition, with trainings and infrastructure building. Some of them agreed to assist in the private venture of starting an investment protection pipeline that would have a database on all the experts including lawyers, accountants, etc. and the pipeline would conduct certifications and training. For example, a system should be developed where these experts could train young lawyers and give them certifications so that those young and relatively cheaper lawyers could give legal advice to small investors. This would not only promote employment but also aid in capacity building.

6.2.2. Capacity building should be the priority in Pakistan for training lawyers. Apart from being LLB or LLM graduates, we need to have people who have other expertise. People need to be trained in the State Bank's policies or the SECP's policies, on the Foreign Exchange Manual, Company Registration, share transfers, Real Estate transactions etc. so that we can build a trust ecosystem for the investors. Continuing Professional Development is mandatory in most healthy and strong jurisdictions where a thriving private sector demands modernized skillsets. That should also be the case in Pakistan.

6.2.3. Our experts who spanned from accounting, to law, to business, to bureaucracy and corporate governance, shared an interest in developing the skillsets of the professionals. It was heavily remarked that the best export that Pakistan can rely on in the short term would be human resources, and we should create avenues to train our workforce in every marketable skillset.

6.2.4. Hence a database of experts that have been certified and trained in various skills and facets necessary for investors should be presented as part of the Trust System

Dispute Resolution

6.3.1. Pakistan needs modern dispute resolution. Our experts, particularly from the legal world were adamant that ADR needs to be promoted and inculcated in all our processes and contracts.

6.3.2. To that effect, it was suggested that a modern dispute resolution center be created with Board of Investment, which would allow mediation, conciliation, arbitration, and support services for all such dispute resolution mechanisms.

6.3.3. It was further recommended that Pakistan needs Model Dispute Resolution clauses, which refer to Model Arbitration Rules, Model Mediation Rules both of which should allow physical and remote hearings. These could be drafted in accordance with the UNICITRAL Model Rules, with which the investors would have more familiarity. Thus, until such time as the Arbitration Act, 1940 is amended and brought in line with the UNCITRAL Model Law, at least the various ad-hoc arbitrations would be better governed under the Model Arbitration Rules.

6.3.4. There could be objections over an arbitration seat in Pakistan due to issues with the Pakistani court systems, therefore, the temporary seat could be made in Istanbul, London, or Dubai. With a seat in Dubai, the arbitration could be held over the Zoom platform within Pakistan. This is to evade the legal oversight of the Arbitration Act, 1940. However, the enforcement of the arbitral award would take place within Pakistan under the Recognition of Enforcement of 2011, Act, which ordains the High Court to enforce the award. Precedent has shown that the High Courts are more inclined at enforcing foreign arbitration awards, and are better equipped to do so, than the lower courts. Until such time as investors are comfortable and trust the dispute resolution process within Pakistan, we should allow and create greater linkages with other jurisdictions where they would want to base the DR process, including capacity building and liaisons with them so that our legal experts are trained in dealing with their mechanisms. As Turkey is working hard on becoming an arbitration hub, it was suggested that MOUs could be sign between their various centers such as, Energy Dispute Arbitration Center, Istanbul Arbitration Center, and others. Likewise, MOUs could be entered into between SIAC in Singapore, LCIA in London, ICC in Paris, and DIAC in Dubai.

6.3.5. By introducing dispute resolution processes, which are collaborative with investors rather than forced upon them, the slow, necessary globalization of Pakistan's legal sector could exponentially speed up. Once Model Dispute Resolution clauses are publicly available and the market actively starts to utilize the same, it is presumed that there will be neutrality in implementation hence the legal market should not have objections. Regardless, once a model is started and implemented with the BOI, there could be variations introduced as necessary for the relevant market.

6.3.6. It was highlighted that the Arbitration Act, 1940 empowers the High Court to make Rules. Therein, it was suggested that a consultative session be started with the High Courts to create a set of Rules for existing problems facing Arbitration i.e., Arbitrator appointments, enforcement of awards, referral to arbitrations, etc. These Rules could include provisions to allow referrals to institutional arbitration.

6.3.7. It was further pointed out that collaborations should be undertaken with the startup and technology sector to introduce technology further into dispute resolution, by online dispute resolution, artificial intelligence and other avenues that are yet unexplored. Hence a connection with the incubators and other tech-related organizations be initiated, to explore this possibility.

6.3.8. Hence a Model ADR Platform and Center be created within the Model Trust System in connection with the Board of Investment, which will also create Pakistan's Model Arbitration Rules and Model Mediation Rules. Another collaboration could take place with the Lahore and Islamabad High Courts to draft Rules under the Arbitration Act, 1940. Finally, the startup sector be consulted on how to modernize dispute resolution and incentives be created to execute on such possibilities.

Liaison & Coordination Network

6.4.1. Our experts expressed pressing concern about the lack of coordination and lack of access to the bureaucracy or policy-makers to ascertain the recent and updated policies, as well as seeking assistance for their projects.

6.4.2. Thus, the Round Table affirmed that the trust system through its investment protection pipeline, should encompass a liaison and coordination network, through which the relevant departments, ministries, and focal staff in each could be contacted, so as to ascertain the information or assistance required

6.4.3. As BOI was the focal point during the Round Table, it was suggested that the model liaison network should first begin with BOI, and then expand to other ministries, many of which were part of our Round Table and expressed their willingness to assist in the matter. It was clear that as this was a task involving the expertise of numerous individuals, which would not be practical to collect under one roof, it should be promoted as a private initiative for the legal and consulting sector to take up. As these networks grew, collaborations would inevitably take place, as well as competitions, all of which would be beneficial to the investors and the trust system.

6.4.4. Hence a Model Liaison and Coordination Network be created within the Model Trust System in connection with BOI, to create linkages and transparency between the private and public sector. The same can then begin to map out with BOI, the various stakeholders pertinent to each industry for publication on BOI's website.

Guarantee and Vetting System

6.5.1. To address the concerns of foreign investors in correctly identifying the market, it was shared that as various incubators exist which are promoting startups, the investment protection pipeline should look after the interests of the investors by creating a guarantee and vetting system.

6.5.2. This would be a system in which a process of "pre-qualification" would be promoted and the companies or startups looking to seek investment could undergo a process of screening and due diligence. This would make the process of entering Pakistan less daunting for the foreign investors and ease their barriers of entry.

6.5.3. The system could also act as an escrow in transactions, and more importantly could play a pivotal role in real estate transactions where a system of protection is vital bearing in mind that the first transaction an investor makes tends to be related to real estate. Yet due to the various players in the market who could mislead or waylay the investors, an element of security and protection should be baked into the trust system for such transactions. The business plan for the same is something the private sector has been engaged in for some time, yet it needs to structure together with the trust system.

6.5.4. It was thus recommended that the legal experts, real estate experts, and relevant government departments could be targeted by the trust system to offer better security to such real estate transactions within the pipeline.

6.5.5. Hence a Model Guarantee and Vetting System be created within the Trust System in connection with BOI that would pre-qualify potential companies for investment, as well as create an escrow system to protect transaction. Furthermore, BOI and the relevant land authorities could be collaborated with to create an appropriate Real Estate protection service within the Trust System.

GOVERNMENT IMPLEMENTATION

Political – BOI

STRENGTHENING BOI

6.6.1. The issue of political stability runs much deeper and is much more nuanced than any one individual and solution. Therefore, attempting to answer it would be reducing the complexity of it. During the Round Table, it became clear that our members from the private sector looked often to the Board of Investment for solutions. While it was agreed by our members that exercising control over the politics of the land would be impractical, what could happen was that the Board of Investment, the nexus of investment in Pakistan from all over the world, be given "teeth." The BOI was made under the Ordinance of 2001, and it works under the PM Office. BOI is a strong board which is critical and could be used to improve Governance.

6.6.2. In essence that would mean enhancing the powers available to the BOI to refine and decide investment policy by having a coordination/liaison system with the private sector, as happened during our Round Table. Instead of just issuing letters of support as it does now, the One-Window Facilitation of the BOI be improved and enhanced, with the BOI playing a more active role.

CONSISTENT POLICY ADVOCACY THROUGH BOI

6.7.1. The issues highlighted above, such as inconsistent policies, would then be addressed by having the BOI act as the nexus through which concerns about policies changes or shifts, and their impending consequences could be communicated.

6.7.2. Additionally, we spoke to multiple corporate lawyers who highlighted that consistent policies are crucial for FDI. They stressed the need to map the federal, provincial, and local stakeholders attached to different industries including Telecom, Textile, Pharmaceuticals, Power, etc. and that all these stakeholders must also be directed to actively engage with each other for better coordination. Stability also means that these stakeholders are synchronized, and they should make regular efforts to remain synced.

INVESTMENT GUIDES

6.8.1. The BOI currently suffers from outdated information on its website, as shared by our legal experts. The low-hanging fruit thereby is to simply consolidate and update the information available in various sectors into one nexus point which would be the BOI.

6.8.2. Another expert shared that the mapping of all relevant stakeholders that needs to take place, should be done through BOI and upon completion of these guides they should be made available on the BOI's website as vital information to investors willing to venture into a particular industry such as power, telecom, pharmaceutical, etc.

ONE-WINDOW FACILITATION

6.9.1. As per our Round Table experts, as there is no one-window system in Pakistan, there are inconsistent policies, incorrect market feedback and a lot of interference from different parties involved. The BOI can facilitate this and connect the investor with the relevant ministry, yet it must rely on our Liaison and Coordination Network for the same. The federal board of investments headed by a federal minister does not have executive authority which is a problem. If someone has a joint venture with a Chinese cement manufacturer and he wants to set up a small apartment, the BOI cannot permit him, at most the board can give him a letter of support which does not mean anything. That investment facilitation window is not empowered; it only has a ceremonial role. It must be given a legal cover by making a policy framework for it.

Economic – Ministry of Finance & State Bank of Pakistan

FOREIGN EXCHANGE

6.10.1. While it was agreed that repeal of the Foreign Exchange Act, 1947 would not be practical, what could be executed was a surgery of the Foreign Exchange Manual to allow better clarity and consistency, with existing policies. According to our members, in practice, the FEM has stayed the same, yet SBP has continually changed when or how to send money based on whatever policy is in vogue at the time. It was suggested that this be discouraged, and using the FEM, which investors and experts were familiar with, plan a remittance strategy that can be implemented. This would further result in consistency in policy and ability of various sectors like power and telecom, who are largely governed by foreign investors to devise a remittance plan in line with the amended FEM.

6.10.2. It was thus suggested that with BOI as the feedback and coordination nexus, begin a consultation process in which various economists, businesses and other stakeholders could amend the Foreign Exchange Manual, and a consistent policy framework be devised with the Ministry of Finance and State Bank of Pakistan, to allow remittances and stabilize the currency.

Legal – Ministry of Law

AMEND THE ARBITRATION ACT, 1940

6.11.1. Unanimously, our Round Table sought the amendment of the Arbitration regime, specifically the Arbitration Act, 1940 in Pakistan to align it with the UNCITRAL Model Law on Arbitration. The Ministry of Law should begin stakeholder consultations and drafts of a bill to amend the existing law which has caused enormous problems for the Rule of Law and enforcement of contracts, while discouraging the populace from ADR.

Taxation – FBR

Updated & Published Tax Information

6.12.1. FBR should create a portal on its website for investors to provide prior tax opinions. They should be able to find standardized information on various taxes such as income tax, corporate tax, services taxes, provincial revenue authorities and others should be given through a one-window facility or consolidated-coordinating cell. Especially, to update the foreign investors on changes in laws and policies.

6.12.2. FBR can lead a panel of publications which includes the Provincial revenue authorities, real estate, stamp duty, excise and excise and taxation. This will greatly benefit the mass confusion and complication pertaining to the tax regime, and provide clarity to foreign investors.

Other Solutions

Special Economic Zones (SEZs)

6.13.1. Our experts expanded at length about the benefits of SEZs. To attract FDI, the Pakistani government should recognize the sectors which are export-oriented with technology transfer. This can be done through incentivizing the export-oriented sectors and creating Special Economic Zones.

Research Facilities

6.14.1. An additional facility should be investor teasers including sector briefs and sectoral studies updated on half yearly or quarterly basis, which could be sourced from various avenues. Funds should be allocated for carrying out these studies. Technical assistance projects can be started in collaboration with USAID or other donor bodies.

Joint Ventures (JVs)

6.15.1. Another solution that was suggested to attract FDI is Joint Ventures. By promoting the concept of JVs amongst the locals we would gain two benefits: local partners taking ownership which would give confidence to foreign investors. The firms that enter into JVs should be exempted from the local indigenous laws and rules. Our experts suggested that bureaucratic and duplicitous impediments have been introduced when registering a JV both within the SECP and FBR, which will need to be removed to incentivize the private and public sector

SME Protection

6.16.1. Our members were of the view that our definition for SMEs needs to be changed. We need to incorporate ventures worth $10 million as SMEs so that they can grow into huge corporations and then contribute to taxes. We have imposed revenue-based taxes which are not imposed anywhere else globally. Furthermore, we must incentivize startups, in all fields, through various models of financing and management.

6.16.2. Some members suggested replicating a model of Luxemburg, Thailand, Singapore, or Vietnam. For the first five years the SMEs should not be taxed and for the next five the taxes imposed should be minimal. Another recommendation was to govern ways of reducing event-seeking behaviors so that existing enterprises do not have to worry about indirect taxation or costs. By gradually increasing the taxes on an SME we can generate a smooth tax regime and boost the income of the SME so that it could become a big corporation. Our members recommended that the government look to Singapore as a model of protecting SMEs so that they grow to become bigger corporations.

6.16.3. Hence it was clear that further consultations would be necessary to take this conversation forward and devise solutions that could be implemented. For the same, it was recommended that FBR, SECP and various representatives of SMEs be engaged in Round Table consultations to allow sustainable solutions to develop from the suggested solutions.

Industry Solutions

Power

6.17.1. Some recommendations brought up by a leading professional in the power sector were that once a Power Purchase Agreement is executed, renegotiation should not be allowed to ensure certainty and consistency. Thus, building investor confidence.

6.17.2. In the past few years, as shared by the Chief Legal Officer in a power-related government department, due to the crippling effect of potential NAB cases, if by virtue of negotiations, any potential dispute and problem between the government and an Independent Power Producer could be settled or mediated, which could certainly benefit the public at large, the government would hesitate to act on it. This also is due to the complexity of power agreements and negotiations, which is difficult to explain to a person who may not have the relevant expertise. This is further evidenced by the fact that even though nearly all PPAs have international multi-tiered dispute resolution clauses, which include amicable settlement and expert mediations, nearly every case is taken to its penultimate conclusion, which involves expensive international arbitration. Millions are spent on such dispute resolution mechanisms that require either Singapore or London based institutional arbitrations. Yet as the government needs to show that it has expended all options so as to satisfy accountability and audits, thus, DR clauses are taken to their final outcome, costing exchequer in every scenario.

6.17.3. Furthermore, as discussed above, the power sector is riddled with unnecessary bureaucracy, which creates administrative hurdles and delays in the process of investment. It was mentioned by BOI, that if investors in China want to invest in power in Pakistan, and approach BOI for the same, BOI has to send that inquiry to the relevant ministry, such as power. However, to increase efficiency and ensure that this foreign investment reaches the relevant domestic persons, they could simply advertise and ask local investors to participate in the process. The domestic parties could share how much equity they have, what the business proposition could be and create a sustainable model as part of a joint venture with the Chinese investors. On the basis of which, a decision could be made as to whether the investment for the Chinese is feasible and proceed accordingly. The gate-keeping element of the relevant ministries could be reduced and the friction for FDI could be avoided. Can partner with China. The goal should always be to create a business environment where domestic and foreign investors are connected.

Telecom

6.18.1. Most of what our experts shared from the Telecom sector were common issues such as inflation, foreign exchange regulation, lack of trust system and inconsistent policies. However, there were certain issues, that were shared, that are specific to their sector, which have been briefly reiterated here.

6.18.2. Firstly, lawmakers should simplify legislation on taxation about sales tax, income tax and withholding tax. The income tax has been increased, and Telecom pays the greatest sales tax of 17%. Due to an increased sales tax, less revenue is generated by Telecom. Our expert shared that taxation in telecom should be reconsidered as the brunt of it is borne by the consumer, for whom digital connectivity is becoming an essential need. The burden on the telecom sector is also a burden on the digitization of Pakistan, which has cascading effects. Instead of regressive taxation, alternative sources of tax collection could be considered. To that effect, the government should re-consider the telecom industry's tax proposals for fiscal year 2022-23 by reducing advance income tax (AIT) from 15% to 8%. Currently, over 193 million telecom users in the country are subjected to exorbitant taxes of 34.5% – including 19.5% goods and services tax (GST) and 15% AIT, making Pakistan one of the highest taxed telecom markets in the world.

6.18.3. As telecom is the enabling industry of Pakistan since it has launched startups, supported incubators, and promoted new industries, hence the policies should reflect and promote that. Instead of targeting one industry, enable a million others, so that they can become profitable and contribute to the public exchequer. For some reason, telecom seems to be considered a luxury industry by the government and short-term revenue generating policies are detrimental to the digitalization drive for the economy and undermine the 'Digital Pakistan' vision.

6.18.4. Second, for Telecom, the cost of Spectrum is paid in USD. Telecom is paying a hefty amount for Spectrum while the amount customers are paying them is not that huge. Adequate spectrum is a key factor in driving cellular growth and improving existing services however it has not been allocated effectively in Pakistan due to the cost associated with it. The price denomination of spectrum purchase is in US dollar terms. This makes the potential investment riskier as annual spectrum license installment payments become unpredictably expensive by each passing year. Owing to rupee devaluation against the dollar over the years, the per MHz spectrum sold for Rs3.11 billion in the 2017 auction, cost Rs5.12 billion (66% higher) during the failed 2021 spectrum auction. According to a 2019 GSMA study,' The impact of spectrum prices on consumer', inflated prices result in the spectrum going unsold or adversely affecting customer service quality as operators are left with limited funds for network development and up-gradation. When Jazz is asked to develop 5G, it responds that it cannot because the costs for 4G are already so massive for them to bear. No one would want to re-invest due to these issues. Government converts its own costs from USD to PKR, but for commercial companies from PKR to USD so this is extremely discouraging. The only solution in this matter is to allow spectrum auction to take place in PKR since both parties, the purchaser and seller, are within Pakistan and earning in PKR.

6.18.5. Finally, recognize telecom as an industry across the board and provide adequate incentives for growth, including electricity tariff at industrial rates. Currently, telecom operators are charged at commercial rates and rising energy costs are the single largest contributor to the cost of running tower sites that are the backbone of a Digital Pakistan. By providing this incentive to the industry, operators can pass on savings from energy costs to the consumers.

Microfinance

6.19.1. Our leading experts suggested a solution whereby a grant or insurance body could be created for insuring micro-loans by the Microfinance industry. This insurance platform can subsequently offer protection against unforeseen losses from natural disasters and give them coverage in the form that if people and their livelihoods have suffered, the insurance can cover it. This would allow the recipients of micro-finance who are mostly under-privileged, to not default on their loans and sink deeper in poverty. It would further allow them to evade some of the suffering of climate change, and environmental disaster, while maintaining their livelihoods so as to recover in a sustainable fashion.

SOCIAL

Gender

6.20.1. Pakistan is a signatory to CEDAW and must comply with obligations under it. Likewise, under the Sustainable Development Goals (SDG), specifically SDG 5 (Gender Equality), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure) and 10 (Reduced Inequalities), Pakistan must make the effort to include gender participation in its workforce. Gender participation in the economy allowed our neighbors such as, Bangladesh to transcend us in GDP and social growth. It was highly recommended by our attendees to take steps to introduce women to the workforce, across the board, in manufacturing, textiles, software, services, and all other facets. In order to circumvent these issues, both government departments and businesses can come up with innovative solutions to increase women's employment. The private sector must make active efforts to create incentives to involve women in the workforce and stronger harassment protection mechanisms.

6.20.2. Various organizations such as, SheMeansWork, the founder of which joined us in this project, and Edge, an HR startup in the US founded by a VC who joined us in this project, can help elevate this, yet further work must be done to discover how to alleviate this necessary setback in our economy.

6.20.3. It is important to look at the examples of other South Asian countries, which effectively prove that the employment of more women in the workforce leads to an increased FDI. The Bangladesh garment industry is the largest employer of women in the formal manufacturing sector Bangladesh, which has set up very systematic incentives for their investors including special economic zones (to give tax breaks to the investors) and included women in their workforce. This not only resulted decreasing the fertility rate but also helped increase the countries' workforce, which then resulted in the growth of FDI. Bangladesh does not produce textiles, rather it imports raw materials of textiles, but it is the second largest exporter of garments in the world. Eighty percent of their exports come from there. (Textile News, RMG News, 2021)

6.20.4. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), about four million people work in the sector and said about 80% of the workforce in the garment industry are women (ILO, 2020). This is because they started reforms such as scholarships, and discourage early marriages, which contributed to growth. In this case, it was not the participation of the government but the lack thereof which proved to be successful. It was the facilitator rather than coming as a negative influence. Reiterating the inclusion of women in the workforce one of our experts from the World Bank stated that women make up the majority in the garments industries of Bangladesh. Our Round Table participants emphasized that Pakistan can't grow nor sustain FDI, if, women are deprived of working parallel to their male colleagues.

6.20.5. Harassment has been cited as a substantial issue in participation of women in the workplace. To that end, it was recommended that the Ombudsperson office for workplace harassment be engaged with to identify and implement suggestions on preventing harassment in the workplace.

6.20.6. However, increased FDI is inherently not an end in and of itself. Taking into account the Pakistani context, policies can be introduced that attempt to use FDI to promote growth as well as gender equality. Foreign investors can be less connected with domestic interests therefore, the government can improve the capacities of women-led domestically owned firms by giving them special loans or subsidies. Another potential solution could be increasing other incentives such as increasing training and assistance to local suppliers and regulating incentive competition.

ENVIRONMENT

6.21.1. During the pendency of this Report, Pakistan was hit by the largest environmental disaster it has faced in ages. Unfortunately, our Round Table was not able to propose any conclusive recommendations on how to tackle the vast environmental challenges faced by Pakistan. It was recommended that a consultation between the relevant ministry, civil society organizations and experts of the field should be initiated as this problem cannot be allowed to linger without a solution

CONCLUSION

This Round Table project has been a work of curation, data collection, and mediation in a short amount of time. With immense support from our experts and members, with whom we had personal and Round Table discussions, we were able to assess and arrive at practical workable solutions to the issues of Foreign Direct Investment and Doing Business in Pakistan. It has been felt by all our members that this conversation has sparked new hope and ownership over the economic state of Pakistan and that the Round Table and Report should continue to expand.

The issues shared, while mostly common, are greatly aided by the targeted and tailored solutions sector-wise.

The creation of a trust system by the private sector would be a great boon for Pakistan, as the need to reconnect with investor confidence is vital in our landscape. The wings of this trust system and the pipeline by which investors will be protected, i.e., expert certifications, dispute resolution, liaison network and guarantee system, shall continue to expand and refined by subsequent models that will attempt to create a marketable product for a new potential industry built around investor's trust.

The Board of Investment, a welcome participant in our conversations, is a deeply supportive public organization whom all our private stakeholders would look to for guidance and to help solve their problems. It became evident that while the interest and desire to aid the private sector existed within the BOI, they suffered from capacity constraints. Thus, our recommendations highlighted strengthening their role and creating partnerships with BOI, as well as other governmental organizations, to aid them in accomplishing their goals. It is assumed and hoped that by doing so, such Round Tables would gain audience to allow better policy consultations that may be owned by the private sector. As gaining trust is not just between foreign investors and Pakistan, it is also between the private sector and the government which by shifting policies lost its credibility.

Thus, it is expected and hoped that the solutions shared by this Round Table will help decrease issues faced by Foreign Investors and that subsequent Round Tables will be able to tackle many facets that could not be addressed in this Report.

AHussain

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SOURCES

It is disclaimed that all views herewith in this Report, and otherwise through forms and discussions are views held by the individuals in their personal capacity, and not indicative of any views or opinions on this subject held by their (or any) organizations.

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