By ICMA Research and Publications Department

SIFC's Strategic Policy Initiatives to Enhance Investment in Pakistan

On 20 June 2023, the Government of Pakistan approved the establishment of the Special Investment Facilitation Council (SIFC), a facility to act as a "single window" to facilitate investors, establish cooperation among all Government departments, and fast-track project development.

The SIFC is structured into three levels, with a six-member **Apex Committee** led by the Prime Minister. The **Executive Committee** consists of eight members, including representatives from the Pakistan Army. The **Implementation Committee** includes five members from both civilian and military leadership. Additionally, the team comprises co-opted members such as the Secretary of Finance, Secretary of the Board of Investment, Secretary of Economic Affairs Division (EAD), Chairman of the Federal Board of Revenue (FBR), Deputy Governor, and Provincial focal points.

The SIFC will prioritize investment and privatization, focusing initially on five sectors: Agriculture & Livestock, IT & Telecom, Mines & Minerals, Energy [Petroleum & Power] and Industry, Tourism and Privatization.

In this Article, we will provide brief details on the strategic policy initiatives that have so far been taken by SIFC to boost investments in the above five priority sectors. Before that, we will have an overview of the current status of FDI inflows into Pakistan.

Current status of FDI inflows

According to the State Bank of Pakistan, Foreign Direct Investment (FDI) in Pakistan decreased by 25% from 2022 to 2023. From July to June 2023, the country received US$1.456 billion in FDI, US$480 million less than the US$1.936 billion in 2022. FDI fell by 58% to US$114 million in June 2023.

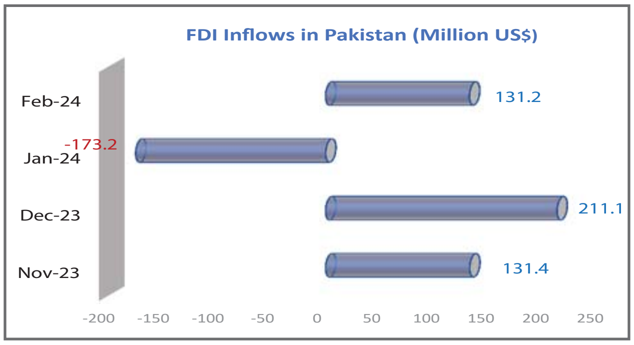
However, during the first four months of FY2023-24 (July-October), Pakistan received US$524.7 million in FDI, a 7.11% increase from the same period the previous year. China, Norway, and the USA were the main sources of FDI, with investments directed towards power, oil and gas, financial services, and electronics.

The financial sector was the top recipient of FDI, followed by the chemicals and construction sectors. Pakistan continues to experience fluctuating FDI figures, with US$131.2 million in February 2024 after a drop of US$173.2 million in January. The highest FDI was in December 2023 at US$211.1 million.

FOREIGN DIRECT INVESTMENT (FDI) IN PAKISTAN (Million US$)

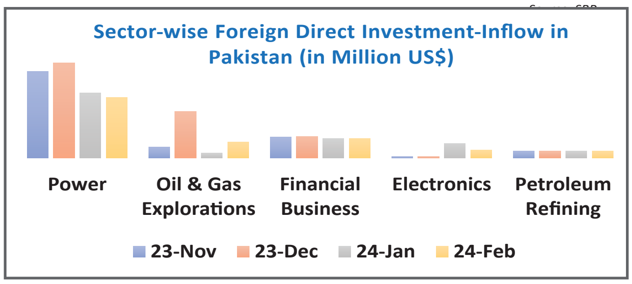
	Nov 23	Dec 23	Jan 24	Feb 24
FDI Inflows	131.4	211.1	-173.2	131.2

Source: SBP



Sector-wise FDI Inflows in Pakistan

	Nov 23	Dec 23	Jan 24	Feb 24
Power	92	100.6	68.8	64.3
Oil & Gas Explorations	11.6	49.2	5.2	16.9
Financial Business	22.1	22.8	20.8	20.9
Electronics	1.8	1.8	15.5	8.7
Petroleum Refining	7.4	7.4	7.4	7.4



SIFC's Strategic Initiatives

At the core of SIFC's strategy is the creation of a favorable environment for foreign investors. This includes simplifying regulatory processes, minimizing bureaucratic hurdles, and offering appealing incentives to attract investment. By fostering a business-friendly ecosystem, SIFC seeks to instill confidence in investors and demonstrate Pakistan's commitment to their success.

SIFC in Pakistan has implemented strategic initiatives to boost foreign investment. These include launching the Pak Startup Fund, introducing the National Seed Policy, establishing E-Rozgar centers, revising visa policies, and launching the National Space Policy. Additionally, SIFC has standardized ROW charges, commenced the rollout of 5G, appointed an Investment Ombudsman, and developed a Telecom Infrastructure Sharing Framework. Other measures include operationalizing EXIM Bank, initiating the Green Corporate Initiative, and providing IT financial incentives.

Pakistan has also engaged in regional economic partnerships, emphasized human resource development, and launched the Land Information and Management System (LIMS). Ongoing projects include Thar railway connectivity, infrastructure development for Reko Diq, and establishing the National Seed Authority.

a) **Simplifying Investment Procedures and Removing Hurdles -** SIFC aims to attract US$100 billion in FDI and achieve a nominal GDP of US$1 trillion by 2035. To achieve this, the council is simplifying and expediting investment procedures, removing bureaucratic hurdles, and providing a streamlined process for investors and business groups.

b) **Addressing Challenges and Promoting Growth -** SIFC is actively addressing issues such as political instability, inconsistent economic policies, and bureaucratic obstacles that have historically deterred foreign investment in Pakistan. By tackling these challenges, SIFC is creating a more conducive environment for investment and economic growth.

c) **Development of Special Economic Zones -** One of the flagship initiatives spearheaded by SIFC is the progress of Special Economic Zones (SEZs) across Pakistan. These designated zones offer a host of incentives, including tax breaks, streamlined customs procedures, and infrastructure support, making them attractive destinations for foreign investors. By focusing resources on infrastructure development within these zones, SIFC aims to address critical bottlenecks and provide investors with a ready-made platform to set up operations.

d) **Agricultural Sector Development -** In the agricultural sector, SIFC's initiatives have been instrumental in attracting investments, promoting modern practices, and driving sustainable development. SIFC has introduced initiatives such as Land Information and Management System, Center of Excellence (LIMS-CoE), and the Green Pakistan Initiative (GPI) to enhance productivity, transform barren land into fertile ground, and promote sustainable farming practices.

e) **Transforming CPEC and Driving Economic Growth -** SIFC's role in streamlining investment processes, policy advocacy, security enhancement, transparency, equitable development, private sector engagement, and international collaboration is crucial for unlocking the full potential of CPEC and the agricultural sector. These strategic initiatives are expected to transform CPEC into a driving force for Pakistan's economic growth and development.

f) **IT & Telecom Development -** For the development IT and telecom sector, SIFC offers tax incentives like profit repatriation, foreign ownership up to 100%, and reduced income tax rates. Special Technology Zones provide tax exemptions, import relief, and property tax exemptions. Telecom operators seek reductions in advance income tax and federal excise duty to encourage investment and growth.

g) **Mines & Minerals Development -** SIFC offers various incentives for investment in the mines and minerals sector, including concessional customs duty and sales tax rates for the import of machinery, up to 100% foreign equity, expatriate facilitation, and Export Processing Zone incentives. CPEC also presents strategic advantages for investment. Additionally, the Foreign Private Investment (Promotion and Protection) Act, 2022, provides protection for investor rights and tax concessions. The Fiscal Incentives for Thar Coalfield offer special economic zone status, zero customs duties on machinery imports, and a 30-year exemption on withholding tax on dividends, among other benefits. The Income Tax Ordinance, 2001, provides a 2% tax credit for every 50 employees in certain sectors, encouraging employment.

h) **Energy (Petroleum & Power) -** SIFC offers a range of incentives in the energy (petroleum & power) sector which include tax exemptions, import concessions on machinery, 100% foreign ownership, government guarantees for payment obligations, protection against expropriation, and attractive return on equity terms. SIFC provides tariff indexation, repatriation of capital and profits, and a streamlined dispute resolution mechanism. The Oil Refining Policy 2023 offers income tax exemptions, custom duty exemptions, and tariff protection for oil refinery projects, aiming to boost local production and reduce imports in the energy sector.

i) **Industry, Tourism & Privatization -** SIFC offers various incentives to investors, including minimal capital flow restrictions, 100% foreign equity allowance, and a reduced customs duty of 5% on Plant, Machinery, and Equipment (PME) in manufacturing sector. The government also provides tax relief of 25% on PME, with no limitations on royalty and technical fee payments. The Auto Industry Development & Export Policy (AIDEP 2021-26) encourages compact vehicles and new technologies for export markets. The non-manufacturing sector (infrastructure & social) also benefits from similar incentives, including 100% foreign equity allowance, 0% customs duty on PME, and a 25% tax relief on PME. The tourism sector offers reduced duty on imports, sales tax exemptions in Gwadar, loss set-off for hotel companies, tourist visa on arrival, and business visa on arrival. Export finance for consultancy services, income tax exemption for hotel services, and tariff protection for oil refining projects are also available. The Oil Refining Policy 2023 offers income tax exemptions, custom duty exemptions, and tariff protection for refineries, aiming to boost local production and reduce imports.

Conclusion

Pakistan's efforts to attract foreign direct investment (FDI) have been mixed, though recent trends point toward potential improvement. While the country enjoys a large young population and a strategic position on the Belt and Road Initiative (BRI) trade route, political instability, security issues, and a fluctuating regulatory landscape have historically deterred foreign investors.

The Special Investment Facilitation Council (SIFC) plays a leading role in stimulating FDI by removing bureaucratic and infrastructure obstacles, ensuring smooth investment in Pakistan and focusing on economic growth. SIFC's comprehensive approach includes streamlining investment processes, establishing Special Economic Zones (SEZs), promoting investment in priority sectors, and enhancing investor support.

Pakistan's success in attracting FDI now hinges on sustaining these positive changes. Consistent policy implementation, addressing security concerns, and improving physical infrastructure are crucial. By leveraging its potential and creating a welcoming environment for foreign investors, Pakistan can usher in a new era of economic expansion, technological advancement, and job creation.