



“ ICMA Pakistan can assist Government of Pakistan in conducting research to see what the cost of doing business is in the regional countries vs Pakistan which is seen by the potential investors in deciding where to divert their future investment in the region ”

Irfan Wahab Khan

President, Overseas Investors Chambers of Commerce and Industry (OICCI)

ICMA Pakistan: Please apprise us about the policy role of OICCI, especially in context of attracting FDI into Pakistan?

Irfan Wahab Khan: Overseas Investors Chamber of Commerce and Industry (OICCI) is the collective voice of all major foreign investors currently operating in the country. Our membership comprising of 190 members belong to 35 countries and are operating in 14 key economic sectors of Pakistan. One of the key objectives of the Chamber is to play a role in policy making. This is done through highlighting issues faced by members and bringing them to the notice of relevant authorities, as well as lobbying with the government on their behalf. Primarily engaged in promoting and protecting the growth of commerce and industry in Pakistan, OICCI serves as the national point of reference for foreign investors in the country and ensures that the views of foreign investors are also appropriately considered and incorporated in the government policymaking, both at the federal and provincial level. OICCI nominees are invited to be members of the policy making board of various government bodies like Board of Investment, Intellectual Property Organization of Pakistan, Board of Governors Pakistan Institute of Trade & Development (Ministry of Commerce), Tax Reform Commission, Tax Ombudsman Advisory Committee, Committees on improving Pakistan's ranking on Ease of Doing Business etc. OICCI view is always

supported by in depth research and analysis of the situation and is therefore given serious attention by all the stakeholders.

As regards OICCI role in attracting FDI, most international trade delegations interact with OICCI to get an independent view of Pakistan investment climate. In these interactions OICCI highlights incentives offered by the government to investors, experience of OICCI members and their success stories. OICCI issues policy statements on matters of interest to investors on subjects like Taxation, Intellectual Property, Perception of Foreign Investors, Business Confidence, and Free Trade Agreements and other matters related to business and these are taken up with the relevant government officials for appropriate incorporation in relevant policies and regulations.

ICMA Pakistan: What is the contribution of OICCI member companies in GDP growth and exports of Pakistan?

Irfan Wahab Khan: I shall just mention a few highlights of the OICCI contribution to the economy and GDP growth of Pakistan for your members to understand the highly disproportionate role of 190 OICCI members in the economy of the country:

- o One-third of all government taxes/levies are contributed by OICCI members
- o Over US\$2.2-2.5 billion in new capital investment annually.
- o Nearly US\$ 9 billion investments out of retained earnings

in last five years; which is nearly as much as the FDI inflow into the country for the same period.

- o Products based on latest international research are available in Pakistan, including in life saving drugs.
- o Members create employment opportunities to about one million people.
- o CSR activities of OICCI members in healthcare, education and other community welfare activities benefits over 20 million persons annually, across the country.

As OICCI members are associates of MNCs operating all over the world, their export activities are generally limited.

ICMA Pakistan: Do you think Pakistan's image as an investment-friendly country has improved? If not, what are the reasons?

Irfan Wahab Khan: Pakistan offers some of the most attractive incentives for foreign investors which are extremely competitive and in many cases better than the incentives offered by other countries in the region. However, the image of Pakistan for the potential foreign investors is not in line with the positive reality. As a consequence, Pakistan is not getting its fair share of the FDI despite significant improvement in the security environment, especially after the 2013 action by the GOP. Besides security concerns, Government of Pakistan (GOP) has also not addressed the key concerns of foreign investors like proactively addressing the issues relating to the gap in policy implementation, adhoc actions on taxation like imposition of Super Tax, Tax on dividend distribution, withdrawal of tax incentive on group taxation, non-settlement of tax refunds and Circular debts. These are some of the issues, which unnecessarily damage the image and attractiveness of the country to potential foreign investors. Most of these issues are easily manageable through good governance and active partnership of the private sector and the Government authorities. That is why OICCI is consistently advocating in the interest of the country to form a Public Private Partnership Forum to be chaired by Prime Minister and including private sector representative from top organizations like OICCI and selected senior Government ministers and officials to, meet quarterly and resolve issues in a manner like the Board of Directors of a leading corporate would function.

ICMA Pakistan: What are the top challenges faced by the foreign investors in Pakistan?

Irfan Wahab Khan: The top challenges are:

- o Negative perception of the country overriding the positive reality. Poor image of the country is deterring new FDI from potential investors but is also making it inconvenient for existing foreign investors who see opportunities to expand but have difficulty justifying new investment in their respective HQ.

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Mr. Muhammad Yasin, Chairman, Research & Publications Committee is presenting a set of publications to Mr. Irfan Wahab Khan, President, OICCI. Mr. Abdul Aleem, Secretary General, OICCI is also seen in the picture

- o Reforms needed in the taxation system which is currently focused on organized sector and is cumbersome in terms of procedures. For example, you will be surprised to note that there are 55 different rates of withholding taxes and roughly 47 taxes to be paid by a manufacturing unit operating throughout the country.
- o Absence of an institutionalized interaction forum for Private and Public sector to address key business issues.
- o Gap in policy and its smooth implementation including growing tendency for (over)regulation.
- o IPR (Intellectual Property Rights) laws are good but lack effective enforcement.
- o Increasing Cost of doing business including the additional burden of weak currency.
- o Federal and provincial laws are not harmonized leading to conflicting laws and coordination issues.

ICMA Pakistan: How do you foresee the economic growth of Pakistan in the backdrop of CPEC?

Irfan Wahab Khan: Majority of the OICCI members strongly support the 'CPEC' projects, which is expected to boost the economic activity at a higher pedestal especially in the SME sector due to visible improvement in the infrastructure and energy availability.

OICCI as a responsible body of large foreign investors is regularly engaged with concerned authorities in promoting good governance leading towards a business and investment friendly environment especially in job-creating manufacturing and services sectors, in addition to those under CPEC projects.

Given the government's focus on enhancing the uninterrupted availability of energy at competitive cost, especially after the smooth supply of additional energy from upcoming Thar and imported coal and other alternate energy projects, there is high expectation from ongoing CPEC projects.

After several years of decline in FDI inflow in Pakistan, dropping to a dismal US\$709 million in fiscal year 2014-15, it has again started picking up with US\$2.3 and 2.4 billion FDI received in the last two fiscal years, 2015-16 and 2016-17, respectively. This is mainly due to CPEC related investments. No wonder OICCI members perceive CPEC to be favorable for local as well as foreign investment.

ICMA Pakistan: What measures Pakistan need to take to improve rating in the World Banks' Ease of Doing Business Index?

Irfan Wahab Khan: We are aware that the Federal and provincial governments have a desire and plans to improve Pakistan's ranking and OICCI is also supporting the authorities.

We have done considerable work on this subject and are of the view that Pakistan can, in limited time, improve its rating provided there is ownership of the issue at the highest level at the federal and provincial level, especially in Sindh and Punjab, with full engagement of relevant private sector stakeholders.

Currently, OICCI sub-committees are working on five critical issues which are within the responsibility of provincial authorities and we expect to give our suggestions within next few months.

ICMA Pakistan: We are surprised that as of now the federal government has not fully implemented the Tax Reform Commission report of 2015-16.

Irfan Wahab Khan: We suggest that professional bodies like yours and of Chartered Accountants should also assist the Government in urgently improving Pakistan's rating on Ease of Doing Business parameters.



ICMA Pakistan: What is the standpoint of OICCI on enhancing the tax base in Pakistan?

Irfan Wahab Khan: In short, OICCI has been a strong and consistent proponent of broadening the tax base urgently. In a country of over 200 million with a middle class of over 70 million, it is strange, if not shameful, that we have tax filers of less than 1.5 million, with tax to GDP ratio of around 12% when it should have been around 25 percent. We, however, do appreciate that it is a cultural and historical issue and that the authorities in the past few years have, out of necessity, started paying attention and taken some concrete measures to narrow the gap, but that is not sufficient. We understand that the authorities have considerable data to ensure broadening of tax base provided proper data mining and analytical techniques are effectively applied and implemented.

The OICCI Taxation Proposals for 2018-19 Budget, for example, included the following points in respect of tax enhancing/broadening measures:

- o Broadening of tax base through appropriate legislation to ensure that all income earners pay taxes equitably, including on income from agriculture related activities and all kinds of government and banks saving schemes.
- o All income earners, without exception of any sector, including from agriculture activities, should get themselves registered and obtain proper NTN. Tax authorities should ensure that all NTN holders file annual income tax/ wealth returns and wealth reconciliation statements.
- o Regular coordination should be done with relevant authorities of countries, considered as tax heavens for stashing away illegal wealth, for information sharing.
- o Appropriate laws should be approved and effectively implemented to enable the government to seize local assets,

in equivalent value, or levy appropriate taxes, if any person holds any kind of assets, including foreign assets, for which source of income could not be established.

ICMA Pakistan: What is the viewpoint of OICCI on Federal Budget 2018-19?

Irfan Wahab Khan: After the review of the Finance Bill 2018-19, the OICCI sent a letter to the Finance Minister applauding some bold and positive measures towards documentation of the economy which included, revision of property valuation and restriction on acquisition of immovable properties and new vehicles by non-filers, withdrawal of immunity of foreign remittances exceeding certain threshold, abolition of presumptive tax regime for Commercial Importers and data mining proposal for further tax broadening.

We also appreciated the withdrawal of tax on bonus shares; gradual lowering of corporate tax rate; giving more flexibility for tax on undistributed profits; extension of tax incentive on BMR investment up to 2021 and 20 year tax holiday on deep conversion oil refinery; the decision to limit comprehensive tax audit to one in three years and reducing the payment of the tax demand from 25% to 10% during the pendency of appeal before the CIT Appeals. Furthermore, providing substantial tax relief to individual tax filers was also a positive measure which will benefit a large segment of the population.

However, OICCI also had serious reservations in respect of continuation of Super tax again for 2018 and to withdraw it in installment up to tax year 2020; enhancement of additional customs duty from 1% to 2%, which will impact majority of the imports of the manufacturing sector, including raw material and will have cascading impact on the manufacturing cost and the competitiveness of products in Pakistan; continuation of Regulatory Duty; high Sales tax rates; Minimum Tax regime; the Banking sector once again being ignored with regard to levying the same Corporate tax rates as applicable to the non-banking sector and no mention of the way forward in settling the long pending tax refunds of the corporate sector, like members of OICCI whose pending tax refund have jumped to Rs.58 Billion.

ICMA Pakistan: What do you say about the impact of upcoming general elections on business and investment climate?

Irfan Wahab Khan: The country needs consistent economic growth with stability in its policy and actions. The government post July 25 elections must give top priority to economy may be priority no 1, no 2 and then only address other political and administrative issues. The new leadership must ensure that issues in economic fundamentals are comprehensively addressed in the first two years of the term of the new government with input from all major stakeholders like OICCI. This will require commitment and participation of all leading political parties so that change of government every few years will not result in fundamental change in economic policies, as is done in many neighbouring countries. We also think that higher economic growth can be achieved by leveraging technology and digitization of key economic sectors. New Government needs to think out of box, learn from some of progressive countries in the region and seriously engage with business stakeholders to build better economic and business environment for economy to thrive.

Transparent, consistent and predictable policies are also critical for attracting FDI in manufacturing and other key strategic projects with longer maturity time-frame. This is also critical for providing employment to growing number of employable

professionals and skilled/ unskilled manpower, roughly two million, entering the job market annually in Pakistan.

ICMA Pakistan: Do you think the regulators in Pakistan are playing their due role in resolving the issues of investors?

Irfan Wahab Khan: By and large yes the regulators in Pakistan are playing their due role in resolving the issues of investors. However matters which should be resolved quickly take a long time which contributes to creating uncertainty and increasing the cost of doing business as capital gets tied up before business related to the investment gets underway.

ICMA Pakistan: How the production and logistics environment in a country impact the inflow of FDI? Please comment.

Irfan Wahab Khan: In a business sector, the logistics environment will include everything that enables the flow and storage of goods and services from the point of origin to the point of their respective consumption/usage. Consequently, supply chain and the production environment form an integral part of the end to end process and will include the following:

- o transportation, shipping, receiving, storage;
- o information and its communication;
- o inventory management (storage and warehousing, material handling, packaging, disposal); and
- o technology to manage all the above elements

The availability, efficiency and effectiveness of the above elements determine the Supply Chain Capability of any environment; be it an economic segment, an industry, or even a country. Economies that can exhibit a superior Supply Chain Capability will always be able to provide more opportunities and thus will improve the climate for Foreign Direct Investment.

Weak or unevolved supply chain networks, logistics and infrastructure will invariably increase costs for investors and prove to be barriers for entry and growth. In addition, such an environment exposes investors to risks arising due to low visibility in areas of environmental protection, human rights etc. Having said that, the Supply Chain Capability of a country is not the only determinant of being able to attract FDI; there are other factors that disturb this capability and can deter inflow of foreign investments. It would be safe to say a combination of factors impact FDI, and the logistics and production environment are one of the significant factors.

ICMA Pakistan: What are the supply chain issues of foreign investors in Pakistan?

Irfan Wahab Khan: As with any supply chain network, specifically for Pakistan, there are strong points as well as some areas of improvement.

Investors may view factors that lead to costs as 'issues'. Supply chain costs increase either due to inefficiencies within the supply chain, or through risks where investors are exposed to the probability of non-compliance of regulations and laws.

Some of the factors that come to mind, with respect to supply chains and their networks in Pakistan, where improvement would prove to be beneficial for attracting foreign investment are as follows:

- o Globally, supply chain sustainability has become a priority. There are laws that need to be followed in connection to Bribery & Corruption, Child Labour, Bonded Labour, Environmental Protection, Safety etc. Even though, most multinational companies in Pakistan, may be able to carry out due diligence of their first tier of suppliers, they may not always have complete visibility of information that provide assurance of their entire supply chain being 'clean'.

- o Trainings for suppliers to gain awareness and increase supply market standards in terms of quality, ethical practices and skills are very few. This basically leads to a supply market where substandard service providers exist and few superior ones. As a result, service segments may have monopolies that escalate costs for investors.
- o Platforms for training skilled labour are limited.
- o There is also room for improvement in Information, Communication and Technology (ICT). Even though, we have seen progress in many companies, smaller suppliers may not be able to invest in such technologies. As a result, only few suppliers will be able to develop competitive edge through automation and efficient flow of information.
- o The biggest challenge for foreign investors is devolution of power to provinces which is creating complications for investors specially those who intend to operate as a trans-provincial entity. The second biggest challenge is the IR landscape of Pakistan, the lack of availability of skilled labor due to dearth of technical training is pulling our manufacture sector back in comparison with regional economies. The recent legal pronouncements and the permanency of contract labour is a big threat to automation agenda. It is pertinent to state that if contract labour issues are not resolved through promulgating appropriate labour legislation the country could loose a big time opportunity to attract investment specially after CPEC goes live.

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ICMA Pakistan: Management Accountants having expertise in cost control techniques can play a vital role in reducing cost of doing business? How OICCI can help in utilizing the technical services of management accountants in FDI projects?

Irfan Wahab Khan: OICCI is always supportive of professional approach to issues facing the investors. We do appreciate the key role CMA's can perform in promoting Pakistan as a destination of choice for foreign investors not only because of the opportunity it offers but also the competitive cost of production it can offer in competition to the regional countries.

ICMA Pakistan: Can you suggest few areas on which OICCI and ICMA Pakistan can collaborate for joint research?

Irfan Wahab Khan: ICMA can assist Government of Pakistan in conducting research to see what the cost of doing business is in the regional countries vs Pakistan which is seen by the potential investors in deciding where to divert their future investment in the region. However, ICMA Pakistan has to remain engaged with bodies like OICCI to see the opportunity of additional research which are relevant for potential investors from within and outside the country.

The Editorial Board thanks Mr. Irfan Wahab Khan, President, Overseas Investors Chamber of Commerce & Industry for giving his exclusive interview for Management Accountant Journal.