

## Test 04

### Introduction

Pakistan faces a critical challenge in the form of a growing disparity in water availability between urban and rural areas. This inequitable distribution of water resources has far-reaching consequences, impacting various sectors of the economy and exacerbating social inequalities. Addressing this issue requires a multi-faceted approach that focuses on equitable access, efficient utilization, and sustainable management of water resources.

### 2. Causes of Water Disparity in Pakistan

Several factors contribute to the widening gap in water availability between urban and rural areas in Pakistan:

#### 1. Inefficient Water Infrastructure:

\* **Outdated and Leaky Infrastructure:** A significant portion of Pakistan's water infrastructure, particularly in rural areas, is outdated and poorly maintained. This leads to substantial water losses through leakage, reducing the amount of water available for end-users.

**Limited Access to Modern Irrigation Systems:** Many rural areas still rely on traditional, inefficient irrigation methods such as flood irrigation, which leads to high water losses and reduced agricultural productivity.

#### 2. Population Growth and Urbanization:

**Increased Demand in Urban Areas:** Rapid urbanization has led to a surge in water demand in urban centers, putting a strain on existing water resources. This is further compounded by the growing population and changing consumption patterns.

**Neglect of Rural Areas:** The focus on meeting the water needs of urban areas often comes at the expense of rural communities, leading to inadequate investment in rural water infrastructure and management.

#### 3. Climate Change:

\* **Changing Rainfall Patterns:** Climate change is altering rainfall patterns in Pakistan, leading to increased variability and intensity of rainfall events. This can result in water shortages during dry periods and increased risks of floods during wet periods.

\* **Glacier Melt:** The accelerated melting of glaciers in the Hindu Kush-Himalayan region, a major source of water for Pakistan, is also impacting water availability and exacerbating water scarcity issues.

#### 4. Water Pollution:

\* **Industrial and Agricultural Pollution:** Industrial and agricultural activities often contaminate water sources, reducing their quality and availability for human consumption and irrigation.

\* **Lack of Wastewater Treatment:** Inadequate wastewater treatment facilities further contribute to water pollution, affecting both surface and groundwater resources.

### Wayforward to avert this challenge

Addressing the growing disparity in water availability between urban and rural areas in Pakistan requires a multifaceted approach that involves infrastructural development, effective policy measures, and sustainable water management practices. The following strategies can be implemented to ensure equitable distribution of water resources and mitigate the social and economic inequalities caused by water shortages.

#### 1. Improved Water Resource Management

##### a. Integrated Water Resource Management (IWRM)

IWRM focuses on managing water resources in a holistic and sustainable manner. Pakistan needs to adopt IWRM to ensure that water resources are used efficiently in both rural and urban areas. This would involve:

Coordinating water usage across different sectors (agriculture, domestic, and industrial).

Managing both surface water (rivers, canals) and groundwater.

Allocating water based on equitable principles, considering regional demands and water scarcity.

### **b. Harvesting the rainwater**

Pakistan should invest in rainwater harvesting systems, especially in rural areas where water shortages are most acute. Capturing rainwater can reduce dependence on depleting groundwater resources, provide alternative sources of water, and reduce the burden on water supply systems.

## **2. Infrastructure Development and Upgradation**

**a Urban Areas:** Urban water distribution networks often suffer from inefficiency and loss due to outdated infrastructure. The development and upgrade of these systems can help meet the growing demand and reduce water wastage.

**Rural Areas:** Rural areas often lack the basic infrastructure for accessing clean water. Building water supply systems, including pipelines, pumps, and treatment plants, will ensure rural populations have equitable access to safe water.

### **b. Water Storage Capacity**

Pakistan's storage capacity for water is far below its requirements. Construction of more dams, reservoirs, and water conservation systems can help store surplus water during the monsoon season for use during dry periods, particularly in rural regions.

## **3. Efficient Irrigation Techniques**

### **a. Adopting Drip and Sprinkler Irrigation**

Agriculture is a major water-consuming sector in Pakistan, and inefficient irrigation methods (like flood irrigation) waste a significant amount of water. Promoting the use of water-efficient irrigation technologies, such as drip and sprinkler systems, can improve water use efficiency, particularly in rural areas where agriculture is the main livelihood.

### **b. Water Pricing for Agriculture**

Introducing an equitable pricing system for water usage in agriculture can encourage farmers to use water more efficiently. This could be done by introducing tiered pricing models, where the cost increases with higher water consumption.

#### **4. Policy and Governance Reforms**

##### **a. Water Allocation Policies**

Policymakers must develop clear and fair water allocation mechanisms that consider the varying needs of urban and rural areas. These policies should ensure:

Prioritizing drinking water needs and basic sanitation over industrial or agricultural demands.

Providing subsidies or financial assistance to rural communities to meet basic water needs.

##### **b. Monitoring and Regulation**

Strong regulatory frameworks are required to monitor water usage across both urban and rural areas. Enforcement of water-use regulations will prevent wastage, illegal extraction, and pollution. Establishing local water committees can help manage water resources at the grassroots level.

#### **5. Community Engagement and Education**

##### **a. Launching Public Awareness Campaigns**

Raising awareness about the importance of water conservation and efficient usage is vital. Public education campaigns can teach people about the significance of conserving water, using it judiciously, and maintaining water storage facilities, which can contribute to overall water savings.

##### **b. Community Water Management Programs**

Involving local communities in managing water resources ensures that they understand the value of water and become proactive in reducing wastage. Community-based water management can help in making decisions that are tailored to the specific needs of both urban and rural regions.

#### **6. Addressing Climate Change and Environmental Factors**

##### **a. Climate-Resilient Water Systems**

The changing climate exacerbates water scarcity, particularly in rural areas. Pakistan must implement climate-resilient water infrastructure, such as the construction of flood control systems, drought-resistant crop irrigation methods, and efficient water management to mitigate the impact of extreme weather events.

##### **b. Reforestation and Watershed Management**

Protecting and restoring watersheds is essential for maintaining natural water flows. Reforestation projects and the conservation of catchment areas will improve water quality and availability, particularly for rural areas reliant on rivers and springs.

## 7. Addressing Socio-Economic Inequalities

### a. Targeted Assistance for Vulnerable Groups

Rural populations, especially in remote areas, are disproportionately affected by water scarcity. The government should provide targeted subsidies, loans, or grants for the installation of water infrastructure in these areas, ensuring that no community is left behind in terms of water access.

### b. Gender Considerations in Water Access

Women and girls are often responsible for collecting water in rural areas, which can be time-consuming and physically demanding. Ensuring equitable access to water for all, especially women, through local water points or household systems can improve social outcomes and reduce gender inequality.

## 8. Promoting Research and Innovation in Water Conservation

### a. Fostering technological Innovations

Encouraging the development and deployment of innovative water-saving technologies is essential. Technologies such as wastewater treatment plants, desalination units for coastal areas, and smart irrigation systems can increase water availability and reduce waste.

### b. Collaboration with International Bodies

Pakistan can seek support from international organizations and research institutions for technical and financial assistance in addressing water disparities. Collaboration with global partners can help implement best practices and successful water management strategies from other countries.

## Conclusion

Addressing the water disparity between urban and rural areas in Pakistan requires comprehensive, inclusive, and sustainable solutions. A combination of better infrastructure, efficient water management, equitable policy frameworks, and community involvement will help mitigate water shortages and social inequalities. With effective execution, Pakistan can ensure a fair and balanced distribution of water resources, improving the lives of its citizens while also supporting economic growth.

**Q1: How can Pakistan reform its tax system to increase revenue collection, reduce reliance on external borrowing, and create a more equitable economic environment?**

### 1. Introduction

Pakistan's tax system faces significant challenges, including a narrow tax base, inefficient administration, and a heavy reliance on indirect taxes, which contribute to low revenue collection and economic inequality. These issues have forced the country to depend heavily on external borrowing, leading to fiscal imbalances and economic vulnerability. ***Pakistan's tax-to-GDP ratio has grown to just 9.5pc from 8pc in 2000. In comparison, India has improved its taxes to 18.5pc of its GDP from 13.4pc and Nepal to 17.5pc from 8.7pc in the same period.*** To address these challenges, comprehensive tax reforms are essential. By broadening the tax base, enhancing administrative efficiency, implementing progressive taxation, and reducing reliance on regressive indirect taxes, Pakistan can increase revenue collection,

reduce external borrowing, and create a more equitable economic environment that fosters sustainable growth and development.

## **2. Causes of poor tax regime**

### **A. Narrow tax base regime**

One of the primary causes of the failure of Pakistan's taxation system is its narrow tax base. A small percentage of eligible taxpayers are registered, and even fewer actually file returns, resulting in low direct tax collection.

### **B. Informal Economy**

A large portion of the economy operates informally, with many businesses and individuals outside the tax net. The informal sector constitutes a significant part of the economy but remains largely untaxed due to lack of documentation and enforcement.

### **C. Reliance on indirect taxes**

Pakistan's tax system heavily relies on indirect taxes, which are easier to collect but regressive in nature. Indirect taxes, such as sales tax and excise duties, disproportionately affect lower-income groups, leading to economic inequality. This reliance on indirect taxes undermines the progressive nature of taxation and fails to adequately target higher-income groups, limiting the system's ability to promote equity.

### **D. Inefficient tax administration**

The inefficiency and corruption within tax collection agencies contribute significantly to the failure of the taxation system. Many tax collection processes are manual and leads to high tax evasion, driven by weak enforcement mechanisms and a culture of non-compliance, significantly reduces revenue.

### **E. Complex tax laws and procedures**

Complex and ambiguous tax laws make compliance difficult for taxpayers, particularly small and medium enterprises (SMEs). For instance, Lengthy and complicated tax procedures discourage voluntary compliance and increase the cost of doing business. Moreover, Constant changes and lack of clarity in tax policies create uncertainty and confusion among taxpayers.

## **3. Wayforwad to strengthen tax system in Pakistan**

Following are the ways to reform its tax system to increase revenue collection, reduce reliance on external borrowing, and create a more equitable economic environment.

### **A. Broadening the tax base**

Broadening the tax base is essential for increasing revenue collection.

#### **Formalizing the informal economy**

The informal economy accounts for a substantial share of Pakistan's GDP.

- Simplify Registration Processes.
- Raise awareness about the benefits of formalization.
- Develop policies that protect property rights and reduce regulatory burdens on small businesses.

#### **Eliminating Unnecessary Exemptions:**

Many sectors enjoy tax exemptions, which reduce the tax base. A comprehensive review to minimize or remove these exemptions can increase revenue

### **B. Enhancing Tax Administration and efficiency**

Efficient tax administration is crucial for effective revenue collection and minimizing tax evasion.

#### **Leverage Digital Infrastructure to Expand Tax Base**

It is essential to advanced digital tax collection systems, such as e-filing and automated tax assessments, to reduce human errors and corruption. *According to a World Bank study published in 2020, improvements in the tax administration of over a 100 countries were largely driven by technological advances, specifically the implementation of electronic filing and payment systems.*

#### **Harmonize NTN with CNIC for Streamlined Taxpayer Identification**

To introduce a digital tax regime, the National Tax Number (NTN) should be the same as the

Computerised National Identity Card (CNIC) number of individuals without requiring the individuals to register. NTN/CNIC should be linked to the financial system through technology, as is the practice in the US, UK, Canada, Singapore, and many other countries.

#### **Implement an Integrated Digital Tax System**

Pakistan needs to introduce an integrated digital system through which records of interest and dividend payments made by financial institutions to companies and individuals would be linked to the tax system. This is a widely followed international norm.

All tax assessments and correspondence should be available to the income tax filers online through a central portal maintained by the FBR. The FBR should communicate through post or electronic means, and no physical presence of tax filers should be required except in the event of a legal case

*Rwanda's modernization of tax administration, including digitization, resulted in increased tax compliance and revenue.*

#### **C. Implementing Progressive Taxation by increasing direct taxes**

Pakistan's tax system has been criticized for being regressive, relying heavily on indirect taxes that disproportionately affect lower-income groups. For instance, Shifting the focus to direct taxes such as income and property taxes ensures that wealthier individuals contribute more.

#### **D. Reducing Reliance on Indirect Taxes**

Indirect taxes, such as sales tax, are regressive and place a heavier burden on lower-income groups.

##### **Reforming Sales Tax:**

Lowering the overall sales tax rate while broadening the base can make it less regressive and more equitable.

**Exempting Essential Goods:** Essential goods like food and medicine should be exempt from indirect taxes or taxed at a lower rate to protect the poor. *South Africa's Value Added Tax (VAT) system exempts essential goods, helping to mitigate the regressive impact of indirect taxation.*

#### **E. Encouraging Voluntary Tax Compliance**

Building a culture of voluntary compliance is essential for sustainable revenue growth.

**Transparency and Accountability:** Publicly disclosing how tax revenues are utilized can build trust and encourage compliance.

**Simplifying Tax Procedures:** Simplifying tax filing processes, particularly for small and medium enterprises (SMEs), can reduce the compliance burden and encourage voluntary participation.

#### **Miscellaneous Steps to strengthen tax regime in Pakistan**

- Mandate Real-time Reporting by Financial Institutions
- Simplify Tax Filing through Pre-filled Information
- Transition to Online Tax Administration
- Strengthen Address Verification Procedures
- Capacity Building for Tax Officials

#### **Conclusion**

In conclusion, reforming Pakistan's tax system is crucial for boosting revenue, reducing external borrowing, and promoting economic equity. Key steps include broadening the tax base by integrating the informal sector, enhancing compliance through digitalization and enforcement, and simplifying tax laws to curb evasion. Progressive taxation can ensure fair contribution from wealthier groups, while transparent governance and efficient use of tax revenues will build public trust and encourage compliance. These reforms will enhance fiscal stability, support sustainable development, and foster a more equitable economy.

#### **Challenges**

Implementing a flat taxation system in Pakistan faces several significant challenges:

**Resistance to Change:** The entrenched interests of powerful lobbies and vested groups benefit from the

current system, making reform politically contentious<sup>13</sup>.

**Complexity of the Current System:** Pakistan's tax structure is fragmented and regressive, with numerous exemptions and varying rates across provinces, complicating the transition to a flat system.

**Low Compliance and Trust Issues:** Widespread tax evasion, driven by a lack of trust in government services and perceived corruption, hampers efforts to broaden the tax base.

**Administrative Burden:** The existing high compliance costs and bureaucratic inefficiencies deter businesses from engaging with the tax system, which could be exacerbated by the shift to a flat rate.