

## Question No:1

### Introduction:

Pakistan has been facing acute problem of its economy. The problem of economy is due to the imbalance collection of taxes from the different sectors in Pakistan. The other problem is the growth of informal economy. Pakistan can improve its tax collection by investing more in FBR, decentralization of FBR and it should move toward the digitalization of economy. These steps would broaden the tax base in Pakistan. Consequently, it would reduce reliance on external borrowing and create a more equitable economic environment.

### Problems in Pakistan tax system:

The problems in Pakistan tax system

are discussed in following ~~para~~ paragraphs.

### ① Inequitable collection of taxes from different sectors.

Main sectors.		
Agriculture	Industry	Services.
50% population involved	25% population	25% population
22% revenue	25% revenue	60% revenue
Tax = 0.03%	Tax = 70%	30%

It is clear from the above sketch that agriculture despite 22% revenue, pay 0.03% tax while industry revenue is 25% but pay 70% tax.

Similarly the government employees pay 316 billion PKR in 2024. So the industry and employees are overburdened.

## ② Informal economy hinders tax collection:

The informal economy is that economy which is undocumented means unregistered with the government.

Pakistan's almost 70% of economy is informal, which means that

these do not contribute in taxes.

## ③ Narrow tax base:

Another problem in the tax system of Pakistan is that less number of people pay taxes. Tax evasion is a common problem in Pakistan. According

to FBR the tax filer

are only 5.3 million which is 2.8% of the total population

due to the narrow tax base.

Pakistan rely on external borrowing.

and

How Pakistan would reform its tax system.

Pakistan has a lot of potential to reform the tax system, that would generate sufficient amount of revenue that it would rely on extend borrowing.

① Digitalization of economy would improve tax collection:

The government should digitize all the sectors whether small, medium or large.

By doing so, government would know about their income. so accordingly tax will be collected from these ~~inf~~ sector. currently, the informal sector is about 70%. if it is digitize it would generate a huge tax which would decrease Pakistan reliance ~~of~~ on extend borrowing.

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## Decentralization of FBR:

The government should also decentralized ~~the~~ the FBR and make headquarters of FBR in each province. It would help in increasing the tax collection. Because the current FBR is inefficient to deal with the large population so FBR should be decentralized to collect more taxes from the people.

③

## Include all sectors in tax net:

The tax ~~collection~~ <sup>collection</sup> of Pakistan is currently based on flawed model. The industry and the government are overburdened by the taxes. For instance the revenue of industry is 25% but it pays 78% taxes while the revenue of agriculture is 22% but it pays 0.03% in taxes. Similarly the government of employee

paid PKR 316 billion in 2018.

therefore, a system should be developed, for the collection of equitable taxes from all the sectors.

⑥ An empowered local government system would improve tax system:

An empowered local government system should be formed that would improve the tax system. The local people are in contact with their constituency. They know about the income of its people. So, it would avoid tax evasion and also improve the tax collection.

⑤ Build capacity of provinces to collect taxes

After the 18th Amendment the provinces were made more powerful than the

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Center. The services tax and agriculture tax collection were transferred toward the provinces. But they currently do not have the capacity to collect these taxes. For instance, The Center collect 34% tax while all the provinces collect 18% together. Thus, building the capacity of provinces would increase the tax collection which would reduce Pakistan reliance on external borrowing.

### Conclusion:

To sum up, the current tax collection system of Pakistan has many flaws. These flaws can be removed by introducing some reforms. These reforms include the liberalization of economy and decentralization of FBR. If these reforms are introduced, Pakistan has potential to generate huge amount

of tax that would meet the expenditure of Pakistan. This will also make more equitable environment and would reduce reliance on external ~~from~~ borrowing.

## Question 2

①

### Introduction:

Pakistan is facing the deepest energy problem of its history. In fact, the on going <sup>economic</sup> energy crisis is more or less due to the energy crisis. The political complexities in the privatization hinder it privatization. Moreover, if the energy sector is privatized ~~means~~ through public private partnerships (PPPs). It can bring a revolutionary change in the energy sector of Pakistan. It can improve the infrastructure, stop the power theft and a shift



toward ~~the~~ renewable energy. The PPPs can ensure affordability, accessibility and sustainability.

## ② Political Complexities and public sector inefficiencies in energy sector:

The political complexities and public sector in-efficiency make the reforms challenging in the energy sector.

### i) Political blame game under the reforms in energy sector:

The political blame game by the politician often become hurdle in achieving a sustainable energy sector. For instance, the blame game on Kalabagh dam have put the country on the verge of energy dilemma. Kalabagh dam could produce 3600 MW.

(ii) Bureaucratic hurdles give blow to the energy sector:

The bureaucratic hurdles are the main cause of inefficiencies. For instance, the Mandipur power plant equipment was kept in Karachi power plant due to the red tapism. Thus the cost rose from PKR 22 billion to PKR 58 billion.

(iii) Lack of infrastructure deteriorate the energy sector.

Another reason of the energy sector's deterioration is the lack of infrastructure. For instance, the loss and transmission in the Pakistan energy sector is 18.21% in Fiscal year 2024 which cost 276 billion to the national exchequer. (Economic survey of Pakistan)

## Role of PPPs in reforming energy sector:

### ① i) PPP's can build infrastructure:

The infrastructure of current energy sector is not up to the mark. PPP's can build infrastructure that would save the line and transmission modalities which is currently  $100\%$  of it which is greater than the region, even less than Afghanistan which is  $12\%$ .

### ② ii) PPPs would shift the energy to Renewable sources:

Currently, Pakistan relies heavily on the imported hydrocarbon. Its cost increase drastically as compared to the post covid world. It further increase after Russian invasion of Ukraine. Thus, it cause a blow to the energy ~~inf~~ sector of Pakistan. If the energy sector

operator by PPP's it would  
 brings investment in the sector and  
 it would shift toward renewable energy.  
 Pakistan has a great potential of  
 generating renewable energy. According  
 to PIDE, the country has  
 potential to generate 50,000 MW  
 from its wind corridor.

iii) PPP's would enhance the  
 efficiency of energy sector:

The  
 PPP's would reform the  
 energy sector by increasing its  
 efficiency. For instance, the current  
 energy sector is so much inefficient  
 that it can't control the power  
 theft in the country, according to  
 the report of power division submitted  
 in the National Assembly power  
 Committee in August 2024, which  
 states that in past 15 months  
 the power theft costed 500 billion.  
 so, if PPP's would have efficiency

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to curb the political theft. For instance, the theft loss in Kadecha is less than government owned companies.

iv) PPP's would transform energy sector to hydro generation from hydrocarbon.

The PPP's can play their role by transforming the power generation from hydrocarbon to hydro by building dam. The country is lacking water dam for the production of energy. So, PPP's would invest in building Dams.

v) PPP's would reduce dependency on hydrocarbon:

Pakistan rely heavily on the imported hydrocarbon. In Fiscal year Pakistan import about \$17.03 billion of oil.

So, PPP's would transform the sector toward solarization which is currently going in high pace in the country.

vi) PPP's would enhance research and development culture:

Lastly, there is lack of research and development culture in Pakistan. PPP's would invest in the research and development culture by which will improve the energy infrastructure of the country.

### Conclusion:

The energy sector of Pakistan is facing severe problems; political complexities and inefficiency hinders the growth of energy sector. These can be improved by the public private partnerships

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They would improve the infrastructure of the energy sector and they would also develop the research and development culture of Pakistan.

They would also reduce the dependency on the imported hydrocarbon. Thus, it will ensure affordability, accessibility and sustainability.