

## Question = 01

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

### Introduction:

Pakistan has been facing economic instability from several decades. It has no consistent economic policy and continuous political instability prevent them from efficient tax collection. The government of Pakistan needs several reforms in tax system to increase revenue collection and reduce reliance on external borrowing. These reforms include: Strengthen local government system for efficient tax collection, digitization of economy, De-centralization of FBR and collect equal share from all sectors to create a more equitable economic prosperous environment.



## Reforms in Pakistan's tax system:

### i) Strengthen local government system for efficient tax collection:

Strong local government system has play an important role in efficient tax collection. It empower the local bodies to collect tax from the grass root level. President Pervaiz Musharraf made an efficient local government system under Local government ordinance that devolve power to the village and tehsil level. In current circumstance Pakistan tax to GDP ratio is 9.2%, while OECD - countries like Sweden and Finland have 40-45% tax to GDP ratio due to strong local government system.

### ii) De-Centralization of FBR:

De-centralization of Federal Board of Revenue has an



Step toward revenue collection. It is because to establish regional and local FBR-offices for tax collection from every sectors of the society. It ensure efficient tax collection from all enterprises including grossary shop, medical stores, real estate etc to contribute in state revenue to establish an equitable economic environment.

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### iii) Digitilization of Economy:

In Pakistan most of the transactions accure through hand currency which have no benefit to tax system. Moreover, many enterprises and sectors are undigitilize due to which the tax department are in formation that how many concern department or sectors generate. For example in Pakistan agriculture sector is not digitilized, in which about



50% workers used their effort that contribute about 0.03% to tax collection. In Pakistan most of the foreign ~~ex~~ transactions conducted through Hawala system due to indigitilize economy. So, digitilization of economy not only contribute to revenue collection but also have the potential to reduce reliance from external debt.

iv) Collect equal share of tax from all sectors according to its strength.

In Pakistan, there are three main economic sectors that run Pakistan's economy. It includes industrial sector, agriculture sector and services sector. Pakistan being an agrarian state about 50% of population used its effort in agriculture to contribute 22% of revenue collection but pay only 0.03% to tax collection. Another sector



is industry which contribute to revenue about 25% and about 25% population are relate with it. But contribute to tax about 70%. On other side, services sector generate about 60% revenue and workers potential is about 50% but contribute to tax collection is 30%.

<u>Sector</u>	<u>Revenue</u>	<u>Tax-Ratio</u>
Agriculture	22%	0.03%
Industries	25%	70%
Services	60%	30%

As a result collection of equal share of tax according to its strength generate revenue to establish a more equitable economic environment.

#### v) Reduce Political influence from revenue department:

In Pakistan most of the appointment in governmental institutions based on Political influence due to



which the institution faced huge economic crisis. As PIA - previous government appointed its voter as an employees due to which it became overburden and the institute unable to pay their wealth. Moreover some of the political leaders do not pay tax according to its strength. So, these reduction in influence will stabilize institutions and make it equitable to collect tax from all.

#### vi) Encourage ~~for~~ provinces ~~from~~ efficient tax collection:

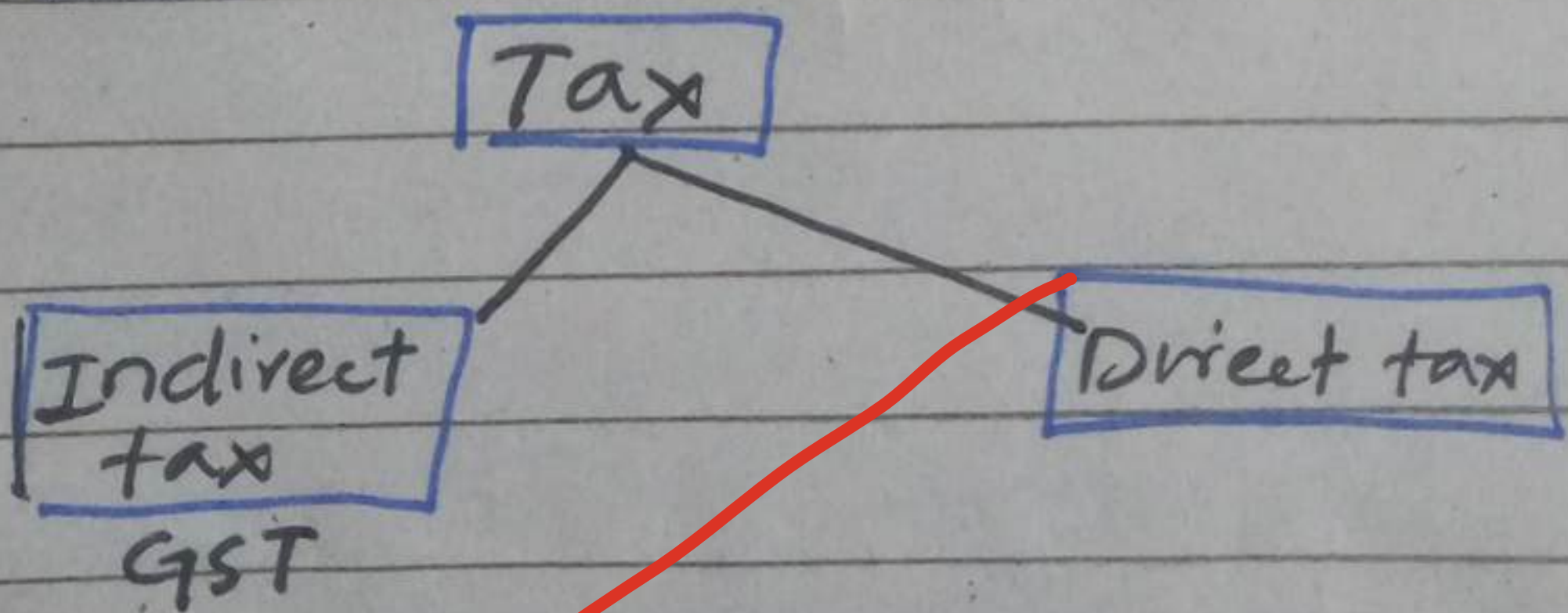
Pakistan had high centralized government but after 18th amendment it give more powers to the federation units. It also made province responsible to collect taxes from their concern subject. But, their share is too less. The federal government collect about 84% of tax while province collect about 16%. So, if province



Collect taxes in equitable manner will help in revenue generation, which has the potential to reduce reliance on external borrowing.

### vii) Reducing indirect tax and Shift towards direct tax

In Pakistan most of the tax has been ~~are~~ collecting through indirect tax system, which deal all power poor and elite class equal. It may be fruitful for Pakistan to shift from indirect tax to direct tax, which has the potential to contribute a lot to revenue.



In a indirect tax system most of the elite class do not give



efficient amount of tax according to their wealth and it become overburden over poor class.

### Conclusion:

Pakistan is an agriculture country and have the population of about 24.2 billion, so the productive reforms in tax system have the potential to increase revenue collection and reduce reliance on external debt. The reforms in <sup>like</sup> sectors ~~in~~ strengthen local government system, digitalization of economy and decentralization of FBR will lead to create a more equitable economic prosperous environment.



Q NO: 02

Given the political complexities surrounding energy privatization and public-sector inefficiencies, what role should PPPs play in reforming Pakistan's energy sector to ensure accessibility, affordability and sustainability?

### Introduction:

Pakistan's energy sector is facing many complexities due to which the government is facing huge economic instability and going to be privatized. Public private partnerships (PPPs) role is too essential in Pakistan's energy to make it accessible, affordable and sustainable. PPPs should do the following reforms like investment in infrastructure development, building new dams, invest in renewable energy and reduce dependency on foreign hydrocarbons, which make the energy sector affordable, accessible and sustainable for the public.



## Role of PPPs in reforming Pakistan's energy sector:

Public private partnerships (PPPs) play an essential role to reforming Pakistan's energy sector for affordable and sustainable energy production.

### a) PPPs investment in infrastructure development:

Pakistan's energy infrastructure system became too fragile due to which its efficiency became reduce. Pakistan's energy sector loss about 22% of power during transmission and distribution, which result about Rs 276 billion addition to the circular debt. Public private partnerships have the potential to invest in renewable renewal of infrastruct infrastructure development. It include renewal of line, placed new machines and equipment according to the modern technology for the



purpose to ensure affordability, accessibility and sustainability.

## (b) Build new dams and water resources:

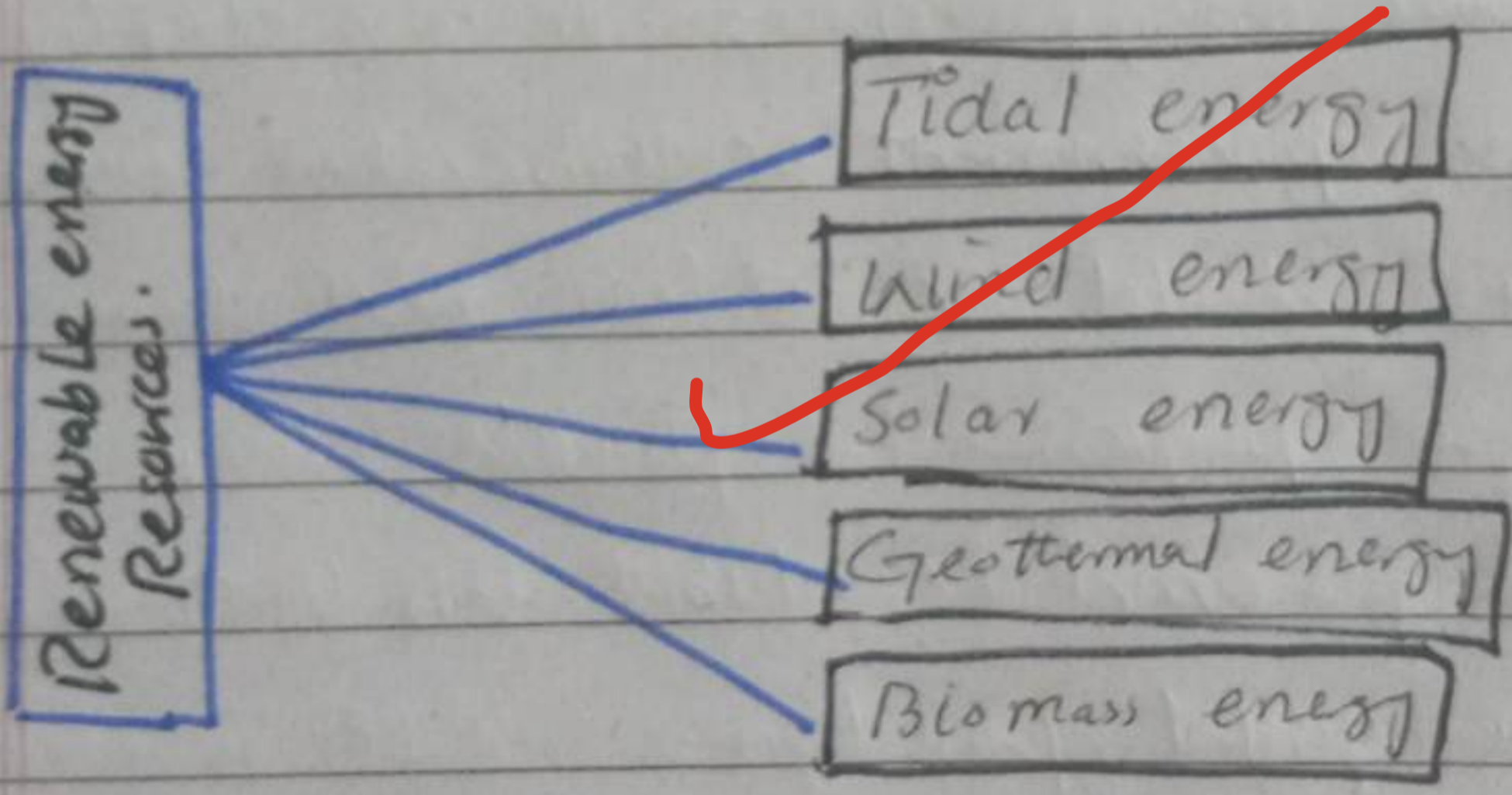
Pakistan produce about 41,141 MW of energy from different sources including hydro, Renewable, nuclear and thermal. Most of them from thermal resource about 5761 ~~2888,00~~ for which Pakistan dependent on hydro foreign hydrocarbons, due to which energy prices increase day by day. Government collaboration with PPPs should establish new dams for the purpose to provide cheap energy and contribute less to the environmental pollution.

## (c) Invest in renewable energy resources:

The role of public private partnerships is too essential to invest in renewable energy source



for accessible and affordable availability of energy. Renewable energy resources include solar system, wind energy, tidal energy etc. In Pakistan according to Economic Survey 2023-24 about 4.26% which is 3,521 MW contribute by the renewable energy. The investment of public private partnerships ensure affordable and sustainable availability through investment in renewable energy sources.

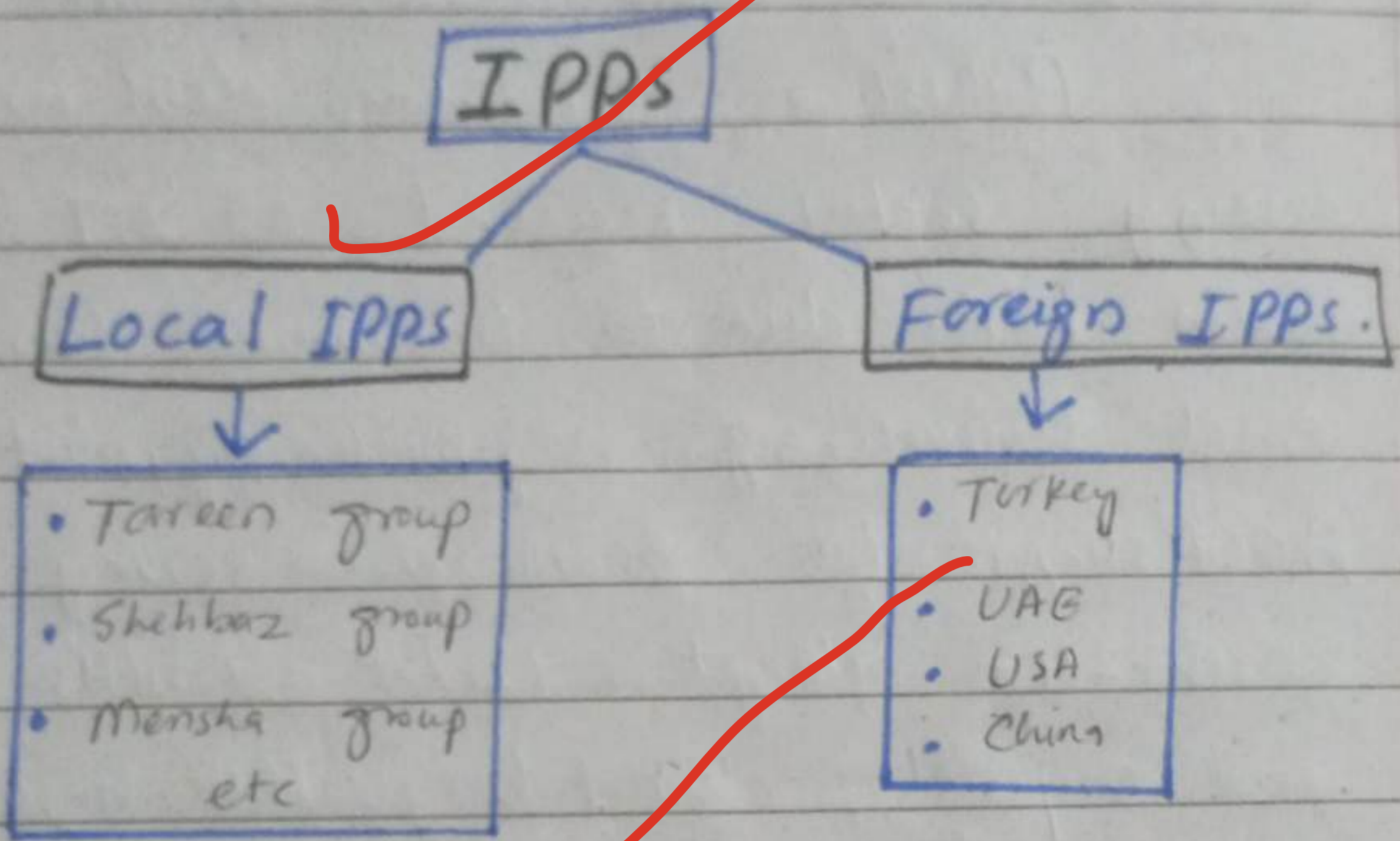


(d) Review agreement with IPPs:

In Pakistan energy are produced through independent power production that supply electricity through distribution companies and to the

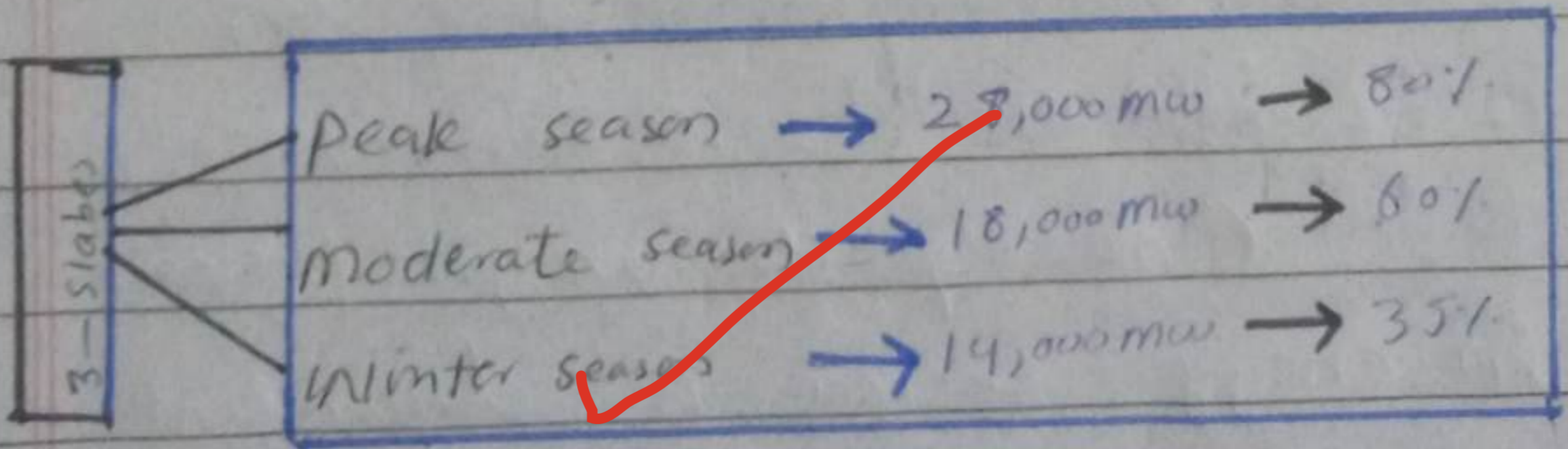


end consumers. Both local and foreign IPPs are working as Pakistan to distribute energy to the end consumer.



With these IPPs agencies the government are signed agreement if the purchase is less than 80% in peak season, 60% in moderate season and 35% in winter season. Even if not purchase by the government will pay.

### Government IPPs agreement.





So the APPs will review its ~~agreement~~ agreement with IPPs due to which the debt become reduce on Pakistan.

### e) Ensure recovery of bills payments

Pakistan circular debt in energy sectors reached to 27 billion PKR. due to transmission loss and unrecovery in bills payment. According to Economic survey 2023-24 - about 12% of bills are unpaid. due to which huge amount are contribute to Pakistan circular debt. Public private partnerships have the potential to ensure recovery of bills payment to provide affordable and accessible energy to the public.

### 7) Reduce dependency on imported hydrocarbons:

One of the major problems in energy sectors is dependent on imported hydrocarbon. Pakistan



Consumes about 588,000 Barrel per day and have locally about 38,000 the rest are imported. (25-2022-23)

In global market the prices of oil are increased due to Russia-Ukraine war and sanctions of Russia due to which the prices of 1-Barrel increased from \$75 to \$110 in March 2022. Public Private

Partnerships should reforms the energy sectors to depend on ~~and~~ renewable energy source and reduce dependency on imported hydrocarbons for chief availability of energy in Pakistan.

## 8) Transparent regulation oversight:

Pakistan's energy sectors has been politicized from the last several years, due to which it has facing the issue of circular debt and ~~become~~ unable to fulfill the employees wages-PPPs



can be made transparent energy sector to reduce political influence in energy sector. This leads them toward affordable, accessible and sustainable energy sector.

### Conclusion:

Privatization of energy sector through public private partnerships play a crucial role to provide cheap and affordable energy. It can review agreements with IPPs, ensure the promotion of renewable energy resources & investment in infrastructure development and reduce dependency on foreign hydrocarbons. Therefore, PPPs role in reforming Pakistan's energy sector will ensure <sup>the availability</sup> accessible, affordable and sustainable energy to be public.