

~ Question No. 1 ~1. Introduction:

Pakistan's taxation crisis is a pressing issue that has far-reaching consequences for the country's economic growth, development, and fiscal sustainability. The country faces chronic revenue shortfalls and relies heavily on external borrowing to meet its fiscal needs. Reforming the tax system is critical for ensuring sustainable economic growth, increase revenue collection, reduce reliance on external borrowing, and create a more equitable economic environment.

“The subjects of every state ought to contribute towards the support of the government, as nearly

as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."

[Adam Smith, The Wealth of Nations, 1776].

## 2. Reforming Pakistan's tax system to enhance revenue collection, reduce external borrowing, and promote economic equality

ci) Expanding the tax base by formalizing the informal economy:

"The informal economy accounts for approximately 75% of Pakistan's total economy." [WB, 2021]. By formalizing informal sectors like retail, agriculture,

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and small businesses, Pakistan can significantly increase its tax base and reduce reliance on external borrowing.

### cii) Strengthening tax administration to tackle the crisis of taxation in Pakistan,

Pakistan should invest in technology, training and resources for tax authorities.

It is need of the hour to strengthen tax administration to enhance tax revenue in Pakistan.

"Tax reform is necessary to promote economic growth, create jobs and reduce poverty."

[World Trade Organization]

### ciii) Enhancing enforcement

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## Mechanism to increase the tax revenue:

There is need to implement transparency measures and accountability within the tax authorities. There should be effective enforcement mechanism that elites and undocumented economy would be taken under control of tax agencies. For this purpose the role of FBR should be strengthened.

## (iv) Simplifying tax laws from complex one to reduce confusion and loopholes related to tax laws:

Pakistan should simplify tax law: from a complex one. Streamline and clarify tax laws will help to reduce confusion and loopholes.

"A simple and efficient tax system is essential for promoting economic growth and reducing poverty."  
[World Bank]

(v) Implementing transparency measures and accountability within tax authorities to reduce corruption:

Implementation of transparency measures and accountability mechanism would help to curb the corruption. For this purpose, the role of **Anti-Corruption Act** should be exemplary.

(vi) Enhancing public awareness and education on the importance of taxation:

Public awareness campaign increase compliance by as much

as 407. Education on the benefits of taxation, including improved public services, is critical for long-term tax culture development.

### (ii) Streamlining tax collection processes through digital platforms:

There is dire need of Pakistan to explore the use of digital tools and platforms to modernize the tax collection system, making it more efficient and transparent.

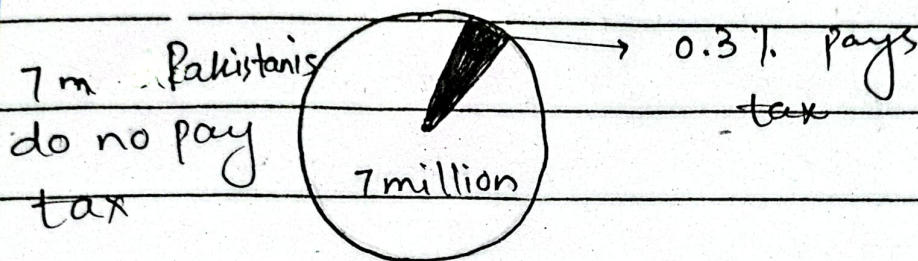
### (iii) Reducing reliance on indirect taxes and shifting towards more direct taxation:

In order to reform tax system of Pakistan, it is proposed to shift from regressive indirect taxes to a fairer system that focuses on more direct taxation.

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to reduce inequality, the population who pays tax is very low, "only 0.3% of the population pays income tax and files a tax return - one of the lowest ratios in the world."

[Pakistan Economic Survey, 2021, 2022]



(ix) Taxing agricultural income to ensure fair contribution across all economic sectors:

Pakistan's agriculture contributes nearly 24% to GDP, yet it generates only 2% of tax (revenue).

"Agricultural income tax revenue in Pakistan is low."

[World Bank]

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(x) Reforming sales tax to ensure a balance between economic growth and fairness:

A well-structured sales tax system can contribute significantly to national revenue without burdening lower-income groups excessively. In Pakistan, reforming the current sales tax could improve fairness in tax collection. [OECD, 2020]

(xi) Empowering provincial tax system for local revenue generation and fiscal autonomy:

There is need for decentralization of tax authority and the need to empower provincial governments to collect taxes more efficiently. ADB 2020 reports that decentralizing



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tax collection can increase regional revenue up to 20% allowing provinces in Pakistan to finance more local development projects independently.

### (xii) Incentivizing timely tax payments to boost voluntary compliance:

Pakistan taxation system should focus on encouraging individuals and businesses to pay their taxes on time by offering incentives or penalties. For example, offering small discounts or rewards for early payments or imposing fines for late payments, can motivate taxpayers to be more punctual.

### 3. Conclusion:

To sum up, a well-designed and efficiently

implemented tax system is a cornerstone of any nation's economic development and stability. In Pakistan's case comprehensive tax reforms can not only enhance revenue generation but also alleviate the burden of external borrowing, promote social equity, and create a more robust economy.

"Once equity and fairness in the tax system has been demonstrated by the state, enforcement as well as compliance will dramatically improve."

[Sakib Sherani, Pakistan's Taxation Crisis, 2015]

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## Question No. 3

### 1. Introduction:

Water scarcity is an increasingly pressing issue in Pakistan, with a growing disparity between urban and rural water availability. Urban areas are seeing escalating demand for water, while rural areas face chronic shortages. This imbalance leads to socio-economic inequality, particularly in rural communities. Addressing this challenge requires a multi-faceted approach that ensures fair distribution, promotes water conservation, and mitigates the social and economic impacts of water shortages.

“Water is critical to human development, economic growth, and environmental sustainability.” [UNITED NATIONS]

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## 2. Addressing the growing disparity between water availability in urban and rural areas in Pakistan

### (i) Enhancing water infrastructure in rural areas:

To address the water scarcity, it is necessary to enhance water infrastructure in rural areas to improve access to clean water. Upgrading and expanding water supply systems, canals, and storage facilities can help bridge this gap.

### (ii) Implementing water conservation measures:

Promoting practices and technologies that reduce water waste and optimize water use, such as drip irrigation and rainwater harvesting.

"Agriculture accounts for 70% of global freshwater withdrawals."

[FAO, The future of Food and Agriculture, 2017]

So, government should implement water conservation measures especially in agriculture.

(iii) Collaborative approaches:  
Public-private partnerships  
in water management:

Public-private partnership should be encouraged in water mechanism strategy. This partnership could help to address the water crisis. The World Bank's "Water Sector Strategy" emphasize the potential of PPP in improving water infrastructure. The Lahore Water and Sanitation Company (LWSC) is an example where private sector involvement has

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improved urban water supply systems, suggesting that similar models could be expanded across the country.

#### (iv) Community-based solutions for sustainable water uses:

Community-based solutions can be effective in rural areas.

According to the Pakistan Rural Support Programme (PRSP), community management of water resources has led to more sustainable water practices in some rural regions.

#### (v) Policy and legal framework for fair water allocation:

Pakistan's water laws and policies need urgent reform.

According to the WB, Pakistan's water governance is fragmented with policies at the national

and provincial levels often failing to coordinate effectively. The Indus Water Treaty provides a framework for water-sharing between India and Pakistan, but domestic policies remain outdated and often fail to address current needs equitably.

(vi) Addressing climate change impacts on water resources:

The Government of Pakistan should address climate change impacts on water resources which requires developing strategies to mitigate and adapt to climate related water scarcity, flooding, water quality degradation.

(vii) Enhancing water monitoring and data collection:

Author: Proper monitoring and

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data collection improves the collection, analysis and dissemination of water data to inform decision-making, planning, and management. Evaluators should be allocated for proper data collection and monitoring purposes.

### (viii) Public awareness and behavior change regarding water conservation

Public education is key to reducing water waste. A report by the Pakistan Water Partnership (2019) highlights that more than 80% of Pakistanis are unaware of the critical water scarcity issue. Through nationwide campaigns, water conservation behavior can be encouraged, promoting small-scale changes like fixing leaks and reducing water consumption in households.



and business.

### (ix) Cross-border water management: addressing regional disputes:

Effective regional cooperation is critical. According to the International Crisis Group, water sharing agreements between Pakistan and India, like the IWT, must be updated to reflect modern needs and climate change impacts. Collaborative management of shared water resources can help mitigate tensions and promote peace between the two nations.

### (x) Ensuring financial inclusion for water-related investments:

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Add and highlight  
references/examples against  
these arguments

provide access to financial services, such as loans, grants and subsidies to support water-related investments and projects, particularly for marginalized communities.

(xi) Fostering collaboration between urban and rural authorities:

Encouraging cooperation and knowledge between urban and rural water authorities can help to address common challenges and leverage resources. Collaboration between urban and rural authorities can improve water services and reduce inequality.

(xii) Supporting research and development in water management:

Government should encourage

through funding and conducting research to develop innovative solutions, technologies and practices for efficient and effective water management. Research and development can improve water efficiency by up to 30%.

### 3. Conclusion:

In a nutshell, addressing the water disparity between urban and rural areas in Pak requires urgent, coordinated actions. Sustainable water management, equitable distribution, and technological innovation can help bridge the urban-rural divide and mitigate the social and economic consequences of water shortage. Water can be managed through practical solutions. as

"The world has enough  
for everyone's need, but  
not enough for everyone's  
greed."

[Mahatma Gandhi]

Good attempt!!!