Economic Agenda for Elections 2018
• This economic agenda derives proposals from Centre for International Private Enterprise (CIPE) – Sustainable Development Policy Institute (SDPI) pre-budget meetings held during January – March 2017, focus group discussions and key informant interviews held during the period October 2016 to September 2017.

• Information is also drawn from discussions with the business community, in particular exporters, and public officials at the 19th Sustainable Development Conference in Islamabad and round table meetings held in Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh provinces.

• Two detailed brainstorming sessions were held under the auspices of Islamabad Chamber of Commerce and Industry to further refine these recommendations.
Thinking beyond CPEC: The dividends from infrastructure development under China-Pakistan Economic Corridor program will remain unrealized if Pakistan does not move towards expediting macro-level reforms that help competitiveness of private enterprise.

Need for structural reforms: Some pending structural reforms in the areas of economic governance and energy are the key to growth and sustainability of private enterprises in Pakistan.
Key priority reform areas

- Manufacturing & Industrial Exports
- Agriculture & Food Security
- Investment Promotion
- Energy Sector Reform
- Tax Administration Reform
1. Manufacturing and Industrial Exports
Manufacturing and Industrial Growth

- Helping new enterprises and SMEs to graduate in to larger entities (cost of energy, tax compliance and labour)

- Designing interventions by Finance Division and FBR for improved competitiveness

- Improve inter-ministerial coordination for timely implementation of facilitation measures

- Building export-oriented supply chains with Chinese private sector through a revised FTA

- Curtail informal trade to safeguard local competitiveness.
Manufacturing and Industrial Exports

• Improve logistic performance (time and cost of port processing, customs clearance, transport)

• Greater regional integration through deep preferential trade agreements that go beyond market access

• Enhancing Pakistan’s trading benefits from EU GSP plus scheme

• Implement the already approved strategy for promoting services trade.
2. Agriculture and Food Security
Agriculture and Food Security

• Reducing burden of indirect taxes on farm inputs

• Subsidy should target only the micro and small farmers

• Remove trade barriers and allow zero-rating of agriculture machinery

• Improve budgetary allocations for agriculture development and food security in poorest districts. A key focus should be on development of livestock value chains.
3. Budgetary Measures to Promote Investment
Measures for Promoting Investment

• Pro-investment tax regime
  – Consolidate indirect taxes at federal & provincial levels
  – Broaden the corporate tax base to reduce burden on industry
  – Strong reform of tax administration and crackdown on harassment faced by businesses
  – Remove unfair exemptions and concessions allowed to select sectors
  – Reduce regressive withholding taxes on turnover.

• Improve coordination for investment diplomacy across various economic ministries/departments.
4. Efficiency and Competition in Energy Sector
Efficiency and Competition in Energy Sector

- Expedite investment in transmission and distribution networks
- To bring down the energy prices, plug technical losses & theft
- Governance reforms in DISCOs will improve receivables
- End hidden and cross-subsidies in the energy sector
- Remove any biases in the structure of corporate taxation
- Reforming the gas market (e.g. affordability, UFG and unbundling).
5. Tax Policy and Administration Reforms
Tax Reform Tiers

Tax Policy
- Federal
- Provincial

Tax Administration
- Federal
- Provincial

Tax Culture
- Supply side
- Demand side
Reform of corporate tax regime

• There are three different rates for corporate tax. This variation allows companies to report incomes and profits in a manner that can keep tax liability to a minimum.

• Further complexity in the corporate tax regime has been introduced through concepts such as minimum and alternate taxes.

• The appeals management and grievance redressal mechanisms will also need to be sharpened in order to build trust. This is particularly relevant to SMEs.
Gradual move towards a modified value added tax

- A large part of evasion in GST on goods takes place due to high rates. An incidence analysis of GST regime should be a routine feature at FBR, especially before any significant changes in the rates and slabs.

- The existing GST on goods is not realising its potential due to over invoicing of inputs and inability of FBR to process the refunds in a timely manner.

- At the federal level, a reform towards a modified VAT will include setting of input-output norms across major industries, and pre-fixing the export rebate across major exported commodities.

- Once the modified VAT takes ground a more broad-based VAT system should be introduced through VAT Bill after review of the CCI.
Correcting Customs Duties

- The tariffs have also been termed high in comparison to the peer economies.

- The effective rate of customs duty falls as the number and value of concessions (from customs duties) increase. Such concessions need to be reconsidered, unless part of a preferential or free trade agreement, or based on humanitarian grounds.

- Harmonizing Pakistan’s customs duty codes with the ECO and Central Asian countries.

- Adopt a minimum import price regime for key import items to curtail under-declaration.
Revisiting the case of excise duties

• The government has yet to deliver on its promise of phasing out excise duties

• There remains a need to see on case-by-case basis where GSTS and federal excise duties are contributing to double taxation. The federal government will need to resolve the definition issues that create such issues

• The federal government can still revisit the production activities with negative externalities, import of luxury goods and services

• On welfare grounds it is suggested that excise duties on edible oil, vegetable ghee and sugar may be gradually phased out particularly in the case of rural and backward areas.
What can provincial governments do?

• Merge revenue departments at the provincial level.

• Apart from GST on services, the 18th Amendment allows management of progressive taxes including wealth tax, capital gain tax on immovable property, gift tax and estate duty.

• The current land (revenue) rates are now being updated but new estimates also very low.

• A revenue-neutral change, where proceeds from agriculture value-added may be taxed in tandem with an indirect tax-cut on inputs.

• To realize the potential of Urban Immovable Property Tax (UIPT) a periodic survey of urban properties is recommended so that the regularly revised rates accurately represent any changes in property and rental value. The concessions allowed under UIPT may be revisited.
Improving Tax Administration

- Need for an independent policy board at FBR
- Revisit lessons from TARP Evaluation, TRC and Tax Ombudsman Reports
- Management reforms at FBR: A full autonomy of FBR, similar to what was seen in case of State Bank of Pakistan, between 2000 and 2006 may be considered
- A risk-based audit along with forensic capabilities can help in validation of tax returns. Will also lower the incidence of WHT
- None of the tax authorities in the country have a publicly communicated grievance redressal mechanism.
Key Discussion Points

• How to now convert discussion around charter of economy into a legislative process? This charter can then become a binding on whichever political parties are in power.

• Other inputs and suggestions for economic manifestos of political parties.
Thank You