

Environmental Fiscal Reform in Abbottabad

EFR, Poverty Alleviation and Environmental Conservation



Pakistan today faces both acute poverty and severe environmental degradation. These challenges arise in part from the manner in which benefits arising from the use of resources are distributed, and it is in the distribution of benefits that a solution can be found. Public revenue in Pakistan is generated primarily through natural resources, where equitable distribution is the key to sustainable development. In the current scenario, however, earnings from the extraction and use of high-value natural resources are mismanaged and seldom channelled towards those who are most in need.

Poverty

Pakistan is home to the seventh-largest population in the world (close to 150 million) and a population growth rate of 2.4%. About 70% of the population lives in rural areas. Average annual per capita income stands at 470

US dollars, placing Pakistan in the category of low-income countries (World Bank 2004). Some 32% of the overall population (36.3% rural and 22.4% urban) lives below the poverty line (IUCN 2004).

The majority of the country's poor live in rural areas or urban slums, without access to education, health care, clean drinking water and sanitation facilities. Poor health and malnutrition have knock-on effects on education and labour efficiency, as well as on the economy as a whole, because the capacity of low-income groups to secure gainful employment is undermined.

Although development plans and programmes continue to be launched across the country, the fact is that Pakistan's social sector indicators have not shown significant improvement over the last few decades. One reason for the absence of meaningful progress is the

unsustainable use of natural resources, since the brunt of resource degradation is always borne by the poorest communities, many of whom depend heavily on natural resources for their subsistence.

There is a clear link between poverty and environmental degradation, which has been described as a self-perpetuating negative spiral in which poverty accelerates environmental degradation and degradation exacerbates poverty (Pinstrip-Andersen and Pandya-Lorch 1995). In Pakistan, as in many other countries, environmental degradation is both a cause and a consequence of poverty.

Environment

Pakistan today faces formidable environmental challenges. Degraded soils, rapidly declining forest cover, and rising levels of air and water pollution are just some of the problems the country must confront. Agriculture and livelihoods are threatened by depleted soil fertility, degraded rangelands and encroaching deserts, while coastal wetlands are rapidly losing their productive potential. Other environmental threats come from indiscriminate urbanisation, unregulated industrial development, increasing levels of air and water pollution, and the over-exploitation of natural resources in general. Since the country is largely arid, it is also uniquely disadvantaged by its dependence on a single river, the Indus, for surface water. It is therefore highly vulnerable to the effects of basin degradation and water pollution.

The impact of environmental damage is undeniable: illness and premature mortality as a result of indoor and outdoor air pollution, diseases caused by contaminated water and inadequate sanitation, and reduced agricultural productivity owing to soil degradation. Food security is also affected, since a fragile and depleted resource base results in poor agricultural yields and lowered productivity.

In monetary terms, conservative estimates suggest that environmental degradation costs Pakistan at least 6% of GDP, or about 365 billion rupees annually (World Bank 2006). This amount is similar to the country's recent growth performance recorded in the national accounts. It has been noted as well that these costs fall disproportionately on the poor. It is a vicious cycle in which the degradation of ecosystems and the services they provide leads to the reduction of livelihood opportunities which in turn deepens poverty.

And the effects are not felt in rural areas alone. For example, water and air pollution cause illness and premature mortality in urban and rural areas alike. This increases pressure on over-burdened health care

systems, reduces labour efficiency and exacerbates poverty (World Bank 2006, World Bank 2007).

It is critical for the country not only to curb but also to reverse environmental degradation. Across the board, resources for the environment sector have traditionally been negligible. Although funding for the sector has grown in recent years, particularly since 2005, increasing allocations is only part of the answer. It is also critically important to ensure that allocations are targeted carefully and utilised effectively.

But such concerns are poorly understood and rarely articulated. As a result, they are frequently omitted from public sector decision making. This neglect at the level of policy and subsequent action leads to further environmental degradation, and the vicious cycle continues.

Environmental fiscal reform

Strengthening environmental management can support economic growth, while improving health and productivity (Government of Pakistan 2006, World Bank 2006). Financing pro-poor environmental management in conjunction with other development activities is of the utmost importance. It is in this context that environmental fiscal reform (EFR), and particularly pro-poor EFR, can assist the government in broadening the revenue base, while achieving both poverty reduction and environmental goals.

EFR has been described as a strategy to redirect government taxation and expenditure with the aim of supporting sustainable development (Green Economics 2007). The idea is to use fiscal instruments to influence behaviour, providing incentives for environmental protection and biodiversity conservation by directly or indirectly modifying the prices of biodiversity-related goods and services. The instruments that are available include taxation, tax exemptions, permit trading, tax rebates, direct expenditure, programme expenditure and tax credits.

EFR requires that taxes are adjusted to make them sensitive to environmental impacts, and may include the levying new environmental or ecological taxes to create incentives for greener practices. Revenues from these taxes are then 'recycled' to achieve environmental and poverty-reduction aims. EFR-related levies may, for example, be used to fund pro-poor services, restore or conserve ecosystems, support improved municipal services, lower taxes on services such as drinking water and solid waste management, or to finance new credit or subsidy programmes for investment in environmentally friendly practices (Green Economics 2007).



Pro-poor fiscal reform differs slightly from the broader vision of EFR, since it specifically addresses environmental concerns that threaten the well-being of the poor. Pro-poor EFR can contribute to poverty reduction directly, by helping to address environmental problems that threaten the health and livelihoods of the poor, such as water contamination, air pollution and the reduction of environmental services. It can also help generate resources to fund pro-poor initiatives, including programmes aimed at achieving development targets. For example, it can help finance investment in infrastructure critical for the poor, such as water supply and sanitation. It can also help finance services and investment in education and health (OECD 2005).

EFR has the potential to:

- Increase revenues from the extraction and use of natural resources (forestry, fisheries, oil, minerals), and promote efficient use of these resources.
- Reduce industrial pollution by introducing pollution charges or removing harmful subsidies, and improve water and energy services.
- Contribute to achieving Millennium Development Goals commitments by generating revenues for investment in health, education, institutional strengthening and environmental management.

Abbottabad district

Spread over predominantly mountainous terrain, Abbottabad district is home to an estimated 928,000

individuals, more than 81% of whom live in rural areas. Subsistence agriculture is the mainstay of the local economy, with modest additional household income generated through activities such as backyard poultry farming and livestock rearing. Deepening rural poverty has, however, led to increasing urbanisation in recent years.

The district is rich in biodiversity, supporting a wide variety of flora and fauna. Two protected areas, the Ayubia National Park and the Qalandarabad game reserve, have been designated. The natural beauty and breathtaking landscape of the district make it an attractive destination for tourists. But poverty and unemployment have led to intense competition for scarce resources, putting the fragile ecosystem under severe pressure. Further ecological damage is caused by haphazard and illegal construction, and pollution from transit traffic.

While environmental degradation is a serious concern in and of itself, pollution, congestion and unsanitary conditions also adversely affect a number of other sectors. The health of the population, livelihood security and the tourism industry are just a few such examples.

Forests cover a little over 20% of the district's total area but the majority of the district's forests are severely degraded. Abbottabad depends on the national grid for electricity, which is used primarily for lighting, while wood is the main source of fuel for

cooking and heating in rural areas. This puts additional pressure on local forests.

Despite the fact that significant deposits of various minerals have been identified, mining is limited, and dominated by soapstone and limestone. Virtually no other industrial activity takes place in the district, leading to an unemployment rate as high as 32%.

Compared to other districts in the province, Abbottabad is both progressive and relatively well-developed. In terms of literacy, for example, it is ranked highest among the districts of the NWFP. Yet 34% of Abbottabad's population lives in poverty, which is higher than the national average of 32% (IUCN 2004). Health care in urban areas is comparatively good but rural coverage is patchy and inadequate.

Although drinking water schemes reach 85% of rural areas and 90% of the urban population, the distribution system is outdated, inefficient and unreliable. Water losses are high and the current structure of user charges is untenable. Water quality is also suspect, with contamination reported in many areas. Across the district, the management of waste water and solid waste is far from adequate, aggravating pollution, adversely impacting the natural beauty of the area and creating a serious public health hazard. Unauthorised construction and encroachments in urban areas put additional pressure on already stretched municipal services. As a result of its location at the crossroads of major highways, Abbottabad city is exposed to excessive pollution originating from transit traffic.

The district government does not generate sufficient funds to properly pay for development activities and allocations from higher tiers are just enough to cover the basic operational expenses. According to the Abbottabad district government's assessment for the year 2006, more than 91% of the district's budget went to pay salaries.

EFR in Abbottabad

To implement EFR in Abbottabad, fiscal instruments will be proposed to alleviate poverty by reallocating revenues. The aim will be to improve access to essential services, curb environmental pollution, increase the quality of environmental goods and services, enhance in-kind and cash earning of low-income groups, and improve health conditions. The environmental benefits of introducing these fiscal instruments will include reducing pressure on over-exploited natural resources, improving the efficiency of natural resource use, and regulating the discharge of harmful waste.

The proposed measures will improve the existing revenue collection system but new fees and charges will also be required. In all such cases, the focus will be on ensuring that the burden of fees and charges does not fall on low-income groups.

Although the introduction of taxes and fees is always a contentious issue, and often a politicised one as well, it is expected that the viability of proposed fiscal instruments will increase once communities are able to witness first hand the benefits that will accrue, not only in terms of improving the efficiency of local government services but also with respect to the poor.

Studies conducted to assess the status of various services and sectors have revealed a number of areas where EFR interventions are likely to prove beneficial. The areas identified for the first phase of EFR in Abbottabad are as follows:

- improved collection and distribution of timber concession fees,
- water use charges,
- pricing and improved collection of electricity rates,
- national park entrance fees with higher charges for foreign visitors,
- fuel pricing,
- solid waste disposal charges, and
- pollution charges for the mining sector.

Recommendations

- EFR should be initiated through projects and programmes. EFR measures can be integrated into ongoing public-sector or donor-financed initiatives.
- Existing EFR-related processes need to be identified and formalised.
- In many cases, taxes collected at the local level are paid to higher tiers of government. This structure needs to be reviewed and revised to enable effective EFR policy design.
- Well-defined property rights are an essential precondition for EFR. Strengthening property rights, especially with respect to common property, public goods and natural resources, will serve as a foundation for successful EFR implementation.
- Wider reform is also needed, beginning with the removal of subsidies in many sectors.
- It is important that the local government plays a major role in implementing EFR initiatives. It is widely

believed that public services associated with poverty alleviation are best delivered at the local level.

- Local governments should be assigned functional responsibilities for a wide range of pro-poor public services. At the same time, an effective system of accountability needs to be put in place.
- The lack of technical capacity in the public sector, particularly at the local government level, is likely to hinder the successful implementation of EFR. Technical capacities will need to be improved, especially with respect to fiscal management.
- The lack of awareness among communities and even within public-sector agencies about the benefits of EFR is another area that requires attention.
- A key recommendation for the implementation of EFR is the establishment of a district environmental conservation and management fund, to support long-term planning. All environmental revenues can be paid into the fund and allocated according to the district's priorities for poverty alleviation and ecosystems conservation.
- Building coalitions between politicians and bureaucrats to initiate cross-sectoral dialogue is crucial. In the case of Abbottabad, greater coordination with the NWFP provincial government is required. Improving linkages to international networks will also prove useful.
- No EFR initiative can hope to be successful without accurate and up-to-date statistical information and financial data. It will be essential to develop, maintain and regularly update information on socio-economic sectors, fiscal trends and the state of environment. This will provide a solid basis for effective EFR planning and implementation.

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In 2006, the International Union for Conservation of Nature, with financial support from the Swiss Agency for Development and Cooperation, launched a pilot EFR intervention in Abbottabad. This fact sheet and the others in this series present the findings of preliminary assessments that were conducted to determine the feasibility of implementing EFR in Abbottabad.



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