

Should the taxman go green?

Studies conducted in developing economies such as those in the European Union have shown that shifting the tax burden from incomes and profits to environmentally harmful uses, of energy for example, can create more jobs and ensure a cleaner environment at the same time.

NAVIL MANSUR CHOWDHURY

THE recent spotlight (and funding!) on environmental issues, mostly climate change, has brought about a lot of debate on policy required to address these issues. Almost every academician or researcher worth his salt (whatever may be his professional calling) has a perspective on the matter. Economists are not far behind and have also offered their two cents on all matters "green." One idea that has been bandied around is the introduction of a "green" tax.

Bangladesh is yet to introduce legislation that uses market forces to arrive at an environmentally and socially beneficial outcome. This isn't a new concept, and has been in extensive use in OECD countries where environmentally-related taxes as a whole made up an average of 5.6% of total tax receipts in 2005.

The basic tenet of this policy would be to make prices reflect the true costs of using scarce resources such as fossil fuels and their external effects on the environment and people's health. In other words, we would seek to "internalise" social costs that were previously "externalised."

The advantages of such taxes lie in their ability to raise revenues whilst safeguarding the environment. Studies conducted in developing economies such as those in the European Union have shown that shifting the tax burden from incomes and profits to environmentally harmful uses, of energy for example, can create more jobs and ensure a cleaner environment at the same time. The idea is to encourage the use of underused human resources and give overused natural resources a breather.

Green taxes can supplement the current tax structure, rising over time to provide an alternate tax base. As national activities take on a more sustainable nature, the revenue

accruing from taxes would gradually fall, requiring higher rates of green taxation. In essence, taxpayers would pay for the use of common property resources (CPR).

This would reflect the actual cost of using the resource to the individual consumer rather than allowing him a free ride on others. Given the dominance of higher income groups over CPRs, this would ensure the progressive nature of the taxes.

In spite of this, green taxes are seen to be regressive as they affect lower income groups more than their higher income counterparts. This effect is magnified since lower income groups rarely pay taxes on income or profits.

This apparent impasse can be overcome by using the revenue generated from such taxes to benefit low-income households in a progressive manner. The regressive nature of the tax can be further reduced by ensuring that it is applied to the "upper stream" of economic activity where it falls relatively more heavily on higher income groups.

For example, a tax on fossil fuels at source would reduce pollution and the use of resources in energy intensive activities like road transport. The tax would fall relatively more heavily on incomes derived from fossil fuels and high-end users (higher income groups) rather than on consumers (lower income groups).

Such taxes at source also reduce the need for a multitude of taxes at all levels, as they create a ripple effect that is seen throughout the economy.

Another thorny issue that arises before the actual introduction of such taxes is with regard to public support. Political governments by nature are reluctant to make any move that makes them unpopular with their voters.

This goes back to the issue of the measure being progressive in nature. Given that the tax is implemented on the "upper" stream of economic activities (affecting higher income groups more), they would not be unpopular



Tax the polluters.

with the majority.

The main problem arises with the actual implementation of this concept, i.e. the pricing. What percent of the fuel price should reflect the damage done to the environment by a car user? How much should an industrial user of natural gas be charged to reflect the scarcity of this resource? Environmental economics currently offers several alternative valuation methods, which are suitable under different circumstances.

However, no matter which valuation method is used, it can always be argued that the "true" price will always remain elusive. However, we can still arrive at a workable estimate of cost that can be kept in mind when we are figuring out the price tag for environmental damage.

We can use the principles behind a green tax to analyse the tax structure of the car import sector. This is one sector that definitely does not subscribe to the ideas behind green taxes.

Recently, the government, through a statutory regulatory order (SRO), allowed import of six-year-old reconditioned cars. The purpose was ostensibly to make reconditioned cars affordable, and also to reduce environmental pollution. Since older cars are less environmentally friendly and less fuel efficient, this particular move does not sit well with the principle of charging an entity that causes an externality or that uses more of a scarce resource (gas).

The National Board of Revenue (NBR) then fixed the rate of depreciation at 50% on these reconditioned vehicles. This further reduced the tax on import of these cars.

We seem to be one of the few countries that are hell-bent on making motorists use old vehicles when they could be using spanking new cars instead. We do this through an antiquated tax structure that does not take into account the lower fuel efficiency of older cars, or the harm they cause to the environment.

Externalities produced by these vehicles in the form of environmental damage and higher use of fuel need to be factored in to work out the exact rate of taxation. The more rational idea would have been the application of a green tax on vehicles that are less fuel efficient and polluting as the standard taxation practice in place of higher taxes on new vehicles.

This will allow the import of new cars (not only re-conditioned vehicles) that are more fuel efficient and environmentally friendly.

It may be argued that taxes on re-conditioned vehicles provide a large tax base that can't be ignored or replaced. However, this tax base could be gradually shifted to the import of new cars. The upshot is that we pay the same but get a superior product in terms of efficiency and its impact on the environment. Now surely no one can argue against that!

Navil Mansur Chowdhury is a lecturer in the Dept. of Economics and Social Sciences, Brac University. E-mail: nmnavil@bracu.ac.bd

Better policy, better health

Real case studies of the national health care models and simulated projections can help visualise a probable model. The urban primary healthcare system in Bangladesh is a good proxy for this exercise because it is defined and information is available. We can easily study the two most significant entities -- the government and the NGO.

ISHIAQ SHAHRIAR JOARDER

THE new health policy update (August 2008) has given rise to some heated debates as to the universal right to Primary Health Care (PHC) and the open market approach through "non-state institutions" like the NGOs and the private sector operators. Real case studies of the national health care models and simulated projections can help visualise a probable model.

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The government system

In Bangladesh, the publicly financed primary health facility in urban areas is quite poor. There are just 9095 Mother and Child Welfare Centers (MCWC) and 3540 urban dispensaries focusing entirely on primary care. By contrast, rural areas have almost 6,000 primary health care service delivery points.

The NGO system

The urban vacuum in non-commercial primary health care is mostly filled by NGO clinics. Approximately 19% of the total population receives services through an NGO clinic. Currently, two major networks funded by ADB and USAID provide comprehensive PHC (Essential Service Package/ESP) in the urban areas.

The United States Agency for International Development (USAID) has supported NGO service delivery for the past 30 years. The USAID network has evolved from separate rural and urban mechanisms in the first phase (1997-2002) to a unified program in the second phase (2002-2008), and now the Smiling Sun Franchising Program (SSFP: 2008-2011) aims at establishing a franchising network of NGO clinics.

"Franchising itself is a new concept and approach in Bangladesh. It is a system where individuals or businesses (franchisees) invest their assets in a system to utilise the brand name, operating system and ongoing support. Everyone (franchisee) in the system is licensed to use the brand name and operating system. The business relationship is a joint commitment by all franchisees and the franchisor, to get and keep customers. Legally, franchisees are bound to use the prescribed marketing and operating systems of the franchisor."

SSFP will try to create an independent health franchise system, building on the existing national network of NGO clinics. This franchise will provide high quality health services generating sufficient income to support approximately 70% of the operational costs while maintaining access to those who cannot pay.

The project will underwrite/subsidise services for the poorest. It uses a build-operate-transfer (BOT) methodology to set a plan for developing the Franchise Manager into an operational entity so that it can assume franchise operations by the end of the project. Currently, 30 NGOs are providing health care services to women, children and youth through 319 static (facility based) and 7,000 satellite (outreach) clinics in 61 districts of Bangladesh.

The USAID funding for the NGO Service Delivery is on a steady decline, corroborated by the final evaluation report of the 2002-2007 cycle program.

"USAID must make it clear to NGOs that, as of the end of the next project, it will no longer be supporting the operating costs of NGOs. Dependence on USAID must end. The NSDP network will be critical in the long-run since the large urban NGO's should eventually become sustainable, and able to cross-subsidise the rural NGOs."

It is clearly evident that USAID will discontinue funding to the NGO clinics either at the end of the current program or sometime soon thereafter. This is a radical shift from all previous approaches, and will greatly impact the PHC scenario in Bangladesh.

It is important to note that franchising is a new system in Bangladesh and franchising PHC service delivery, which is either a free or largely subsidised service in even the developed world, is going to be a formidable challenge.

In order to make the urban-rural network viable, the rural counterparts will need to be subsidised in varying degrees with the profit made by the urban side. This will substantially reduce the business drive of the successful profit centers (SSFP network clinics).

If this situation lasts for a long period, there is a possibility of successful franchisees dropping out of the network. How the SSFP as a PHC franchising network, and the NGOs as individual organisational entities, deals with this complex transition is a matter for full scale study by itself.

The Asian Development Bank (ADB) started its first Urban Primary Health Care Project (UPHCP I) in 1999. The project provides services through a combination of facility-based (static) and outreach (satellite) clinics. UPHCP I covered the six city corporations -- Dhaka, Sylhet, Chittagong, Barisal, Khulna and Rajshahi; UPHCP II is ongoing (2005-2011) and has added five municipalities -- Bogra, Comilla, Sirajgonj, Madhabdi and Savar.

UPHCP II is in expansion with an initial \$90 million budget, and the objectives are to improve:

- Access to and use of urban PHC services in the project area;
- The quality of urban PHC services in the project area; and
- The cost-effectiveness, efficiency, and institutional and financial sustainability of urban PHC.

The network consists of 162 Primary Health Care Centers (PHCC) and 19 Comprehensive Reproductive Health Care Centers (CRHCC) offering safe delivery and caesarian section. There are an additional 24 Voluntary Counseling and Confidential Testing Centers (VCCTC) and 24 Primary Eye Care Centers (PECC).

The VCCTC provides free HIV counseling and testing and also STI/RTI diagnosis and treatment. The PECC offers full range of primary eye care including eyesight correction with glasses (optometry). Currently, on an average, the network provides services to 3 million people yearly -- mostly the urban poor women and children.

The differences between UPHCP and its USAID counterpart are:

- The clinics are planned to be housed in own facilities built on land owned by the city corporations or donated by people;
- The service mix includes provision of profit generating components in demand by the local community (ESP+);
- The projects are owned and managed by CCs or municipalities, which forms a basis for sustainability and
- New innovative approaches like public-private partnership with a profit sharing arrangement etc. are encouraged, which has a greater chance of producing a sustainable model.

Considering the current national urban PHC portfolio, UPHCP II seems to combine all essential PHC service elements in a collaborative arrangement between an existing government structure (Local Government Division of MoLGRD&C), autonomous bodies (CC or municipality), NGOs and private sector.

The government provides the required policy guidance and stability whereas the other components (autonomous bodies, NGOs and private sector) offer vital flexibility in design and operations.

The resulting public-private partnership can be a flagship for the global urban PHC designers and operators.

As a matter of national interest, the civil society and the government policy makers should follow up and facilitate the modeling of SSFP and UPHCP II for adopting the better one, or use a combination approach in future.

Dr. Ishiaq Shahriar Joarder is the national HIV specialist in UPHCP II.



Policy alone cannot help him.

Reliving our nightmares

When, in a flush of new-found economic maturity four years ago, we told the IMF that our future financial needs would be met primarily from domestic and international markets, we ticked the number of IMF-specific benchmarks we had been able to attain between 1998 and 2004. Then why should we have gone so horribly wrong yet again?

F. S. AJIAZUDDIN

WE have been colonised by every power that matters -- the Mughals and the British, military regimes and pseudo-parliamentary governments. We must now prepare ourselves for a long period of occupation by international financing institutions.

The Mughals gave us imperial cohesion and a land revenue system; in return we gave them absolute power to rule uninterrupted for 350 years. The British, over a hundred years, gave us English, a judicial system, the steel framework of a bureaucracy, and nabobs like Warren Hastings; in return we surrendered to them our liberty and our natural resources.

Military regimes for thirty-three years gave us authoritarian rule, botched attempts at reforming governance, and assurances that democracy could be delivered only by midwives in khaki; in return we gave them our obedience and our Samsobir trust.

For the remaining twenty-eight years, we gave pseudo-parliamentarians our votes; in return they have given us empty promises and left us with even emptier coffers. Now we look to the neo-colonialist IFIs for financial succour. We want them to lend us billion of dollars and provide a semblance of solvency;

in return, we may have to pledge ourselves to a long sentence of fiscal servitude.

An apprehension has been nurtured in the minds of our public that an approach to the IMF will be akin to the surrender at Dacca Racecourse in December 1971. We recovered from that ignominy, just as France did from its capitulation to Germany at Compiègne in 1940.

More recently, in the 1990s, Brazil and Mexico recovered from their economic crises. We, too, should be able to emerge from our present maelstrom. It is often easier to weather a storm when one is already within the eye of it.

Let us examine our relationship with the IMF before we pass judgment on the IMF or on ourselves. The IMF provides a range of loans (euphemistically described as "facilities") that can be either on concessional terms or at market-related interest rates. The first category includes Poverty Reduction and Growth Facility (PRGF) and Exogenous Shocks Facility (ESF), i.e. those factors that are outside a country's control. The period of such facilities can be between 5 to 10 years and carries a sweetheart rate of interest of 0.5% per annum.

The second category includes Stand-by Arrangements (SBA) and Extended Fund Facility (EFF). These are shorter in duration. The SBA is for 12-24 months and the EFF lasts

usually for 3 years. Because of this, they carry a higher, market-responsive rate of interest.

Currently, Pakistan has availed a PRGF loan of \$1.033 billion, sanctioned by IMF in December 2001, out of which \$861 million had been drawn-down. Before the facility could expire in December 2004, our financial health had so improved that we wrote to the IMF on November 12, 2004, informing it that "we have decided not to draw the tenth and final tranche under the PRGF" so that these resources would become available for other countries in need of concessional support from the Fund.

Greater love hath no man than that he should forgo his IMF tranche in favour of a needier debtor, even though he might have to use that very bowl to beg again one day, as we are doing.

To be fair to ourselves, we are not chronic beggars, habitually parked outside IMF's doorstep. Over the period 1958-2000, we drew down less than half the \$6.2 billion we had been originally sanctioned. In 2000-1, following the post-Chagai nuclear sanctions, we drew down the full SBA of \$465 million requested by us. Between 2001-4, we availed all but the last tranche of the PRGF facility, of which \$787 million is still outstanding. The last instalment is due in 2014.

Today, we have begun discussions with the IMF for financing under a concessional Stand-By Arrangement. This, in IMF's parlance, "stipulates the specific policies and measures a country has agreed to implement to resolve its balance of payments problem."

The economic program underlying an arrangement is formulated by the country in consultation with IMF, and is presented to the Fund's Executive Board in a 'Letter of Intent.' Once an arrangement is approved by the Board, the loan is released in phased instalments as the program is imple-

mented."

The IMF announced that while discussions were ongoing, as of October 22, the amount of financing under SBA had not been determined. Meanwhile, the IMF has said that we can avail of the more expensive Emergency Fund Mechanism, because it is quick-disbursing and does not involve adherence to performance criteria. We will be in the company of such other emergency-afflicted countries as Bangladesh (floods), Haiti (hurricane) Turkey (earthquake), and the Maldives (tsunami).

Reading the previous Letters of Intent signed by our finance minister/advisor on finance, jointly with the Governor State Bank, makes one realise how much we have changed, and yet how little. Ten years ago, we were promising action on Wapda and KESC. We undertook to introduce agricultural tax, to broaden our registered tax-payers base to 1.8 million, and to introduce a host of fiscal measures. We are again parroting those undertakings.

When, in a flush of new-found economic maturity four years ago, we told the IMF that our future financial needs would be met primarily from domestic and international markets, we ticked the number of IMF-specific benchmarks we had been able to attain between 1998 and 2004. Then why should we have gone so horribly wrong yet again?

We should not waste our time finding out. It is too late now to lament over our mistakes. It is time to do something about a future that we have forfeited but have no right to renounce on behalf of future generations of Pakistanis, almost 80 million of whom are still under the age of twenty. They deserve to live their dreams, not have to re-live our nightmares.

F.S. Ajiazuddin is an eminent Pakistani journalist and author.

A prediction for the future of Wall Street

A junior school girl from Asia has solved the global financial crisis. There is already talk of a Nobel Prize in Economics for Meena Das, aged 10, whose idea has electrified the financial community. Her plan will be discussed by top bankers and macro-economists tomorrow at the World Economic Forum in Davos, Switzerland.

In this exclusive report from the far side of our imagination, we watched Ms Das being interviewed by CNN's Larry Queen.

Larry: So, Miss Das, could you tell us about your brilliant idea and how you came up with it?

Meena: Well, I am reading in the paper that the banks had stopped lending money, and everyone was worried about credit crunching and so forth. So then I had this totally WILD idea. How about from now on, each person is just spending the money that that person is already having?

Larry: Can you run that by me again?

Meena: Of course. You see, instead of spending money you don't have, you save until you have enough money to buy something, THEN buy it.

Larry: Astonishing.

Meena: It may seem strange to Americans, but many people in Asia have been doing this for thousands of years.

Larry: It seems suspiciously simple.

Meena: That's the beauty of it, Mr Larry, sir.

Larry: What about the catastrophic drop in the stock markets?

Meena: Well, I can help there, too. I know a recycling place which offers several rupees per kilo for worthless sheets of paper. They even accept Lehman Bros minibonds, subprime mortgage papers and so on.

Larry: How will that affect asset values? Property in parts of America is now cheaper than homes in parts of Asia.

Meena: That's only to be expected. America is a developing country.

Larry: Miss Das, you have been tipped as a future replacement for US treasury secretary Henry Paulson. But critics say you don't have a track record in successful financial management.

Meena: Does Mr Paulson?

Larry: Touche. Okay, let's move on. Do you have any suggestions for the thousands of investment bankers out of work in the United States?

Meena: I'm thinking that we can encourage the US government to set up call centres in Wall Street. There is a lot of unused space in Lower Manhattan now.

Larry: US call centres for Asian clients?

Meena: Yes. Let's say people in Hong Kong want to a home delivery cha siu or vindaloo; they call a number and it is answered in America. Orders are taken and data sent back to Asia. The caller will never know the

enquiry was handled in a former investment banking office in Manhattan.

Larry: I don't know if US investment bankers will be able to adjust to that.

Meena: Why not? A lot of American bankers can speak English, although not as well as many Asians. And what have they been doing all these years, anyway? Working telephones to sell toxic materials to each other.

Larry: When you put it like that, it seems to make sense. Have you started hiring yet?

Meena: You're the first employee.

Larry: I already have a job.

Meena: Not any more. The US media is downsizing and you've just been sacked. Now pick up this script and repeat after me: Asian Food Corp, may I take your order, please?

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