

# The case for environmental fiscal reforms in Bangladesh



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THE 2041 Perspective Plan seeks to transform Bangladesh from lower middle income to an upper middle income country by 2031 and eventually to a high income country by 2041. These are highly ambitious but laudable targets. If the government is serious about achieving or even approaching these targets then they must pay attention to increasing the annual average GDP growth rate to 8 percent plus and sustain this over the longer term.

The sustainability of growth is a serious challenge owing to the severe environmental degradation and the continued heavy toll from natural disasters that are being exacerbated by climate change. The frequent large losses of capital and income and the continued large poverty incidence in districts that are adversely affected by environmental degradation and climate change are examples of the tasks ahead.

The current growth strategy has taken its toll on the environment and quality of natural resources in Bangladesh. While combating the disastrous effects of climate change remains a priority, the government also needs to ensure that the adverse impact on the natural environment emerging from domestic policy choices is minimised. A prudent economic growth policy that mini-

mises such negative externalities may be termed as a 'green growth' policy.

Fortunately, there is a growing recognition amongst policymakers of the environmental damage of continuing with the business-as-usual development strategy and the risk it poses to the sustainability of development. Environmental activism has increased at the public fora and among policy-makers.

The increasing concern with environmental degradation and the risks of climate change have led the government to adopt a large array of strategies, laws, rules and regulations, and adaptation and mitigation programmes and projects. But the results on the ground suggest that their implementation has been weak. One major problem of the past is the inadequate integration of environmental concerns in the national development strategies and the annual budgets. The Bangladesh Delta Plan and the Perspective Plan seeks to address this strategic gap. More fundamentally, the financial and institutional constraints have been paramount in limiting the effectiveness of the implementation of the government's environmental protection strategy.

Research done for the Perspective Plan suggests that in order for Bangladesh to implement a green growth strategy to ensure consistency of growth and poverty reduction targets with environmental protec-

tion, the country needs to increase its spending on environmental protection and climate change related programmes from 1 percent of GDP now to 3 percent of GDP by 2031 and to 3.5 percent of GDP by 2041.

Towards an environment-focused fiscal policy

According to the OECD, "Environmental fiscal reform" (EFR) refers to a range of taxation and pricing measures which can raise fiscal revenues while furthering environmental goals. This includes taxes on natural resource exploitation or pollution. EFR can directly address environmental problems that threaten the livelihoods and health of the poor.

This general idea of using taxes and subsidies to eliminate the gap between social and private benefits and costs has caught the imagination of environmental economists and policy-makers. Since many of the environmental services like clean air and clean surface water bodies are in the nature of public goods, private producers and households left to themselves would tend to contribute to excessive pollution of these services. In Bangladesh, air pollution and surface water pollution are mainly caused by irresponsible and unchecked behaviour of factories and households undertaking activities that generate carbon dioxide and other gaseous emissions, release various air pollutants through construction activities, and dump solid and liquid wastes into water bodies that pollute them. By imposing a pollution tax, economic agents will get an incentive to control their behaviour. This "polluter-pays-principle" along with the "beneficiary-pays-principle", which requires that a beneficiary must pay the full cost of the good and service consumed, has now become common language underlying the application of good-sense economic principles to the design of sound environmental management policies.

At the theoretical level, the rationale for environmental taxation was

first developed by British Economist Sir Arthur Pigou. He argued that when a private producer is not held accountable for all the costs incurred by the producer because some of the costs are not reflected in the financial cost of production, there will be an over-production of that good and the external cost will be passed on to the society at large. In practice, a Pigouvian tax in developing countries is a realistic proposition. The potential benefits that arise from a shift in incentives and raising additional

tion has also caught on in many developing countries including South Africa, China and India. South Africa has been an active player in using environmental taxes, raising as much as 2.29 percent of GDP in 2014 (Source: OECD Environmental Taxation Database). In Asia, large emitters of carbon dioxide, China and India, are actively seeking to use environmental taxation along with other instruments for improving environmental outcomes.

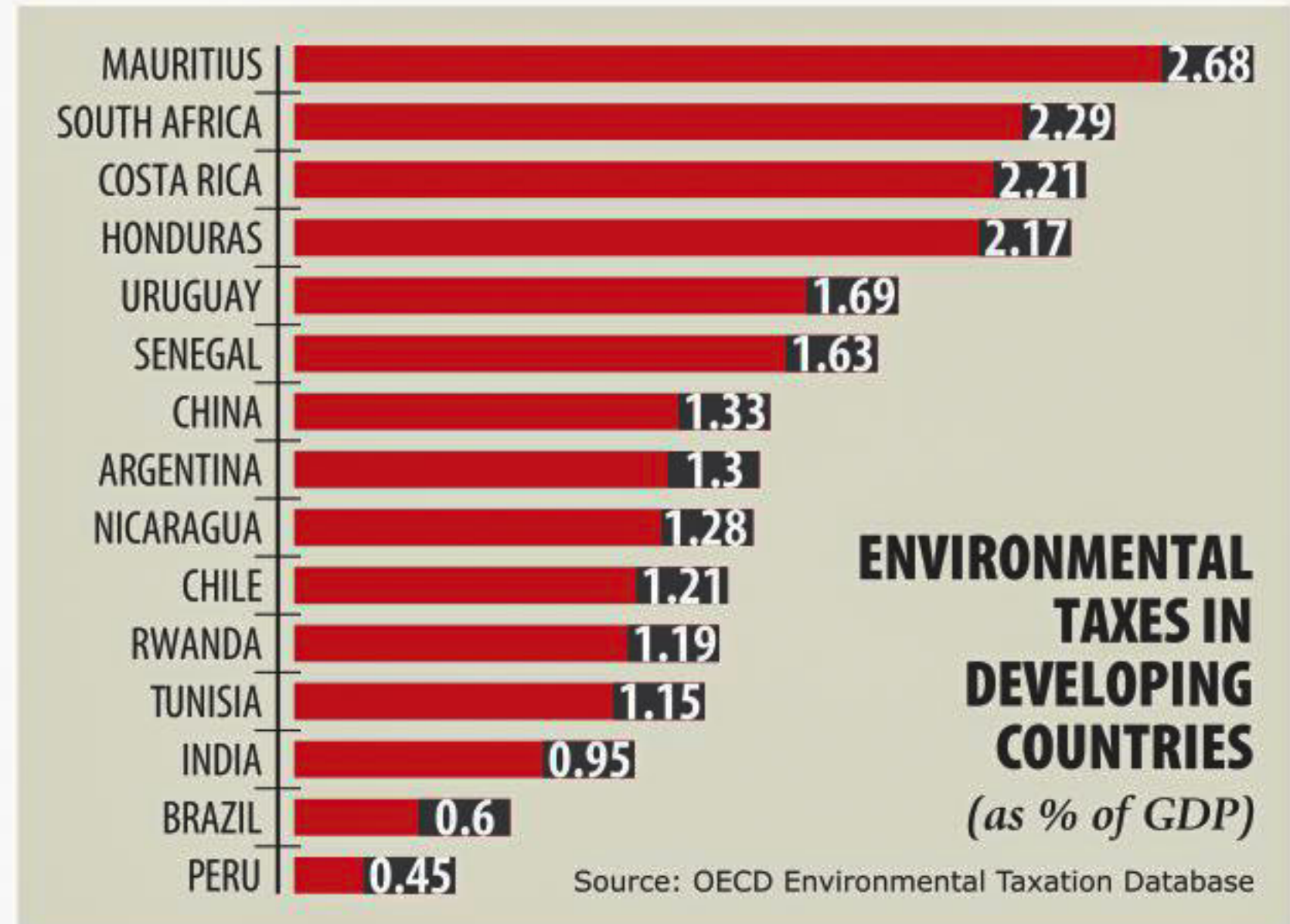
Several lessons emerge from the

explaining the rationale for the instrument and the possible benefits for the country as a whole. At the same time, taxes should be used gradually with an initially smaller coverage and lower rate.

In conclusion, the rationale for adoption of EFR in Bangladesh is clear. First, EFR can help raise public revenues. This is especially attractive for Bangladesh as it has a very low tax to GDP ratio. Second, the incidence of air and water pollution in Bangladesh is amongst the worst in the world. Environmental taxes and subsidies aimed at reducing air and water pollution can be very helpful in improving the environment. Third, Bangladesh has a track record of heavily subsidising fuel oil with adverse fiscal and environmental consequences as well as contributing to inefficient use. Proper pricing of energy and other publicly provided services intimately related to environmental protection can ensure the efficient use of these resources and protect the environment. Finally, the inadequacy of resources is a major constraint on public funding for critical growth-enhancing programmes like infrastructure; for spending on health, education, water supply and social protection to support poverty reduction; and for funding major environmental improvement programmes. The revenues mobilised from EFR can be a major contributor to help augment public spending for these programmes.

Global experience suggests that the main constraint to the use of environmental taxation relates to political economy and is often confounded by equity concerns. These concerns affect taxes of all kinds, and EFRs are no exception. However, the beauty of EFR is that it has the potential to combine tax with pro-poor public expenditure measures.

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funding for public spending make it an attractive policy tool, albeit one that has to be carefully designed and reviewed periodically.

International experience offers valuable lessons

The most use of environmentally related taxes for improving environmental outcomes has happened in OECD countries. In 2005, 375 such taxes existed in OECD countries, yielding an estimated 2-2.5 percent of GDP as revenue. Some 90 percent of these revenues came from taxes on gasoline and motor vehicle. Over time, the average revenue yield has come down, falling to 1.56 percent of GDP in 2014. Environmental taxa-

review of experiences with EFR that should inform the debate on the formulation of EFR for Bangladesh. First, the use of EFR requires the presence of appropriate legal framework and adequate institutional arrangements for the design and implementation of adopted instruments. Second, administrative costs of tax collection should be minimised through a proper design. Third, there is often public skepticism (exploited by political leaders) that environmental taxes are primarily new ways of collecting more taxes rather than improving the environment. Countries have tended to rely on a strong information campaign

## McDonald's spared in EU tax probe

AFP, Brussels

THE European Union on Wednesday ended a long-running investigation into the tax arrangements between US fast food giant McDonald's and Luxembourg, finding the setup did not amount to illegal state aid.

With the decision, the maker of Big Mac and McNuggets escapes the fate of US giants Apple, Starbucks and Amazon, which were ordered by the EU to repay big amounts in back taxes, angering Washington.

"Luxembourg did not break EU state aid rules," EU Competition Commissioner Margrethe Vestager told a news briefing in Brussels, though she carefully added that the company had managed to escape tax,

nor any dues to US authorities, under special treaties between Washington and the duchy. The EU found that the deals complied with national law and could not be seen as an unfair advantage handed the fast food conglomerate by Luxembourg at the expense of others. McDonald's said it welcomed the decision and insisted it paid fair taxes in Europe.

"We pay the taxes that are owed and, from 2013-2017, McDonald's companies paid more than \$3 billion just in corporate income taxes in the European Union with an average tax rate approaching 29 percent," a McDonald's spokesperson said.

Launched in 2015, the case against one of the world's most iconic companies followed the LuxLeaks affair, which revealed that top global companies had



albeit legally.

The case stemmed from a complaint by trade unions and the charity War on Want accusing McDonald's of avoiding around one billion euros (\$1.2 billion) in taxes between 2009 and 2013 by shifting profits from one corporate division to another.

"Of course, the fact remains that McDonald's did not pay any taxes in Luxembourg on these profits -- and this is not how it should be from a tax fairness point of view," Vestager said.

But the commissioner said she welcomed that Luxembourg was in the process of closing tax loopholes related to the EU's investigations. These would "avoid such situations in the future," she said.

Specifically, the Commission investigated whether the arrangements meant McDonald's paid no tax in Luxembourg

negotiated lower tax rates, in some cases as low as one percent, in secret pacts with Luxembourg. Luxembourg itself has been hit by negative decisions from Brussels -- including a payback demand against Amazon for 250 million euros.

McDonald's fate is in stark contrast to the spectacular decision against iPhone-maker Apple, which was handed a record 14 billion-euro tax bill over its arrangements in Ireland.

"The commission has missed an opportunity to tackle McDonald's," said Owen Espley, senior campaigner at War on Want, the complainant in the case.

"Our report showed that it is dodging over 1 billion euros across the EU. And it's not just a question of paying fair taxes -- McDonald's is not paying fair wages either," he added.

## Global tech firms gear up to fight India's planned data law

REUTERS, New Delhi/Mumbai

GLOBAL tech companies plan to oppose new legislation in India that would require Facebook, PayPal and others to store user data in the country, arguing it will hurt investment and the business models of foreign and domestic firms.

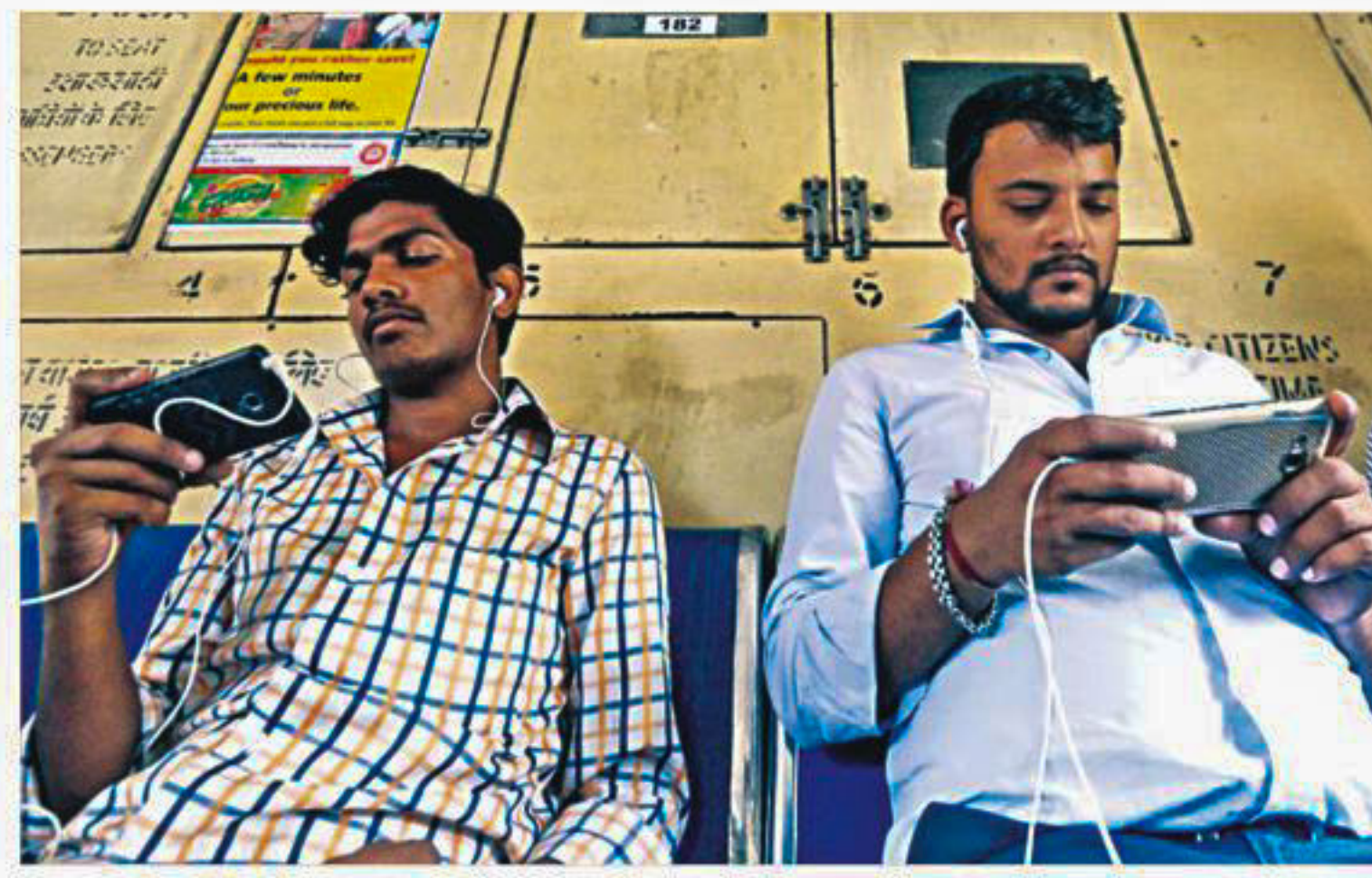
In July, a government panel recommended that all "critical personal data" should be processed in India, and presented a draft bill that could affect how global firms store customer data.

Facebook, Mastercard and PayPal fear the new law, which follows similar measures in China and Vietnam, would increase their compliance and infrastructure costs, and affect planned investments.

Their concerns are to be taken up by lobby groups planning a joint effort to pressure New Delhi to reconsider.

"The potential fear of restricting cross-border data flow would impact the business models of several Indian as well as global companies," said a draft of their letter addressed to India's information technology minister.

"Fear of restrictive regulation



REUTERS/FILE

Commuters watch videos on their mobile phones as they travel in a suburban train in Mumbai.

has the potential to negatively impact the flow of foreign investments," said the letter seen by Reuters.

The letter, to be delivered by Sept. 30, is supported by the US-India Strategic Partnership Forum, the Washington-based Information Technology Industry Council (ITI), London-based techUK, and India's NASSCOM.

Together they represent some of the biggest names in global technology, including Alphabet Inc's

Google, Salesforce.com Inc, Microsoft and India's Wipro.

An IT ministry official said data localization was necessary to enable the government to carry out investigations and to guard against data breaches, which are widespread globally.

"They (industry) are too ambitious to think this won't become a law within a year," said the official, who declined to be identified as he was not authorized to speak to the media.

The campaign will argue that the data law hurts both foreign and local firms, many of which now store data overseas, said an official of one of the international companies involved.

ITI's executive vice president for policy, Josh Kallmer, said the group would send lobbyists from Washington and Brussels to hold talks with Indian officials.

The US-India forum said it was working to build an industry-wide consensus on data protection. The Confederation of Indian Industry is also canvassing members to join the effort, an industry source said.

TechUK declined to comment, while NASSCOM did not respond to a request for comment.

India is the latest country to seek tighter control over data and domestic operations of global tech firms.

In June, Vietnam passed a cybersecurity law for technology firms to store "important" personal data on users in the country. Industry lobby groups opposed the measure.

For India, home to several global tech firms, the data law appears set to become the newest irritant in trade with the United States.

## Eyeing Uber, China's Didi launches in Mexico's second city

AFP, Mexico City

CHINESE ride-hailing service Didi Chuxing said Tuesday it is launching service in Mexico's second-largest city, Guadalajara, expanding its presence in the country -- and its challenge to market king Uber.

Didi Chuxing rolled out trial operations in the Mexican city of Toluca in April, and has also launched in the country's third-largest city, the northern industrial hub of Monterrey.

The play for Guadalajara ups the ante in its battle with Uber for Latin America's second-largest economy, part of the Chinese service's worldwide bid to cut into the San Francisco-based company's market share.



"Didi Chuxing ... today began offering service in Guadalajara, Mexico's second-largest city and the capital of the state of Jalisco after receiving the operating license

from the state's transportation secretary," it said in a statement.

"The company will first offer Didi Express, its main affordable on-demand transportation service, to the five million citizens in the metropolitan area."

Didi Chuxing is used by hundreds of millions of people in China, where it muscled out Uber in 2016 after a bruising turf battle.

One of Asia's most valuable start-ups, it has recently entered Australia, Japan and Brazil, while forcing Uber to retreat from Southeast Asia.

In Mexico, it is starting service from the ground up, rather than purchasing an existing firm as it did in countries such as Brazil and India.