



Environmental Fiscal Reform in Abbottabad

Revenue and Expenditure



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ACRONYMS AND ABBREVIATIONS

ADP	Annual Development Plan
CCB	citizen community board
CNG	compressed natural gas
EFR	environmental fiscal reform
GDP	gross domestic product
LGO	Local Government Ordinance 2001
MDG	Millennium Development Goals
MTDF	Medium Term Development Framework 2005–10
NEP	National Environmental Policy 2005
NWFP	North-West Frontier Province
PFC	provincial finance commission
PRSP	Poverty Reduction Strategy Paper
PSDP	Public Sector Development Programme

PREFACE

In the closing weeks of 2009, as this publication went to press, the contentious issue of the National Finance Commission (NFC) award was finally resolved. On 30 December 2009, the 7th NFC award was signed by the federal government and the finance ministers of the four provinces.

The new award, which comes into effect from the 2010–11 financial year, gives the provinces a greater share of funds from the federal divisible pool. Compared to their current share of 47.5%, under the new award the provinces will receive 56% in the first year and 57.5% in the following year.

For the first time in the history of the NFC award, factors other than

population have been taken into account. The new formula is based on a combination of weighted criteria: population (82%), poverty (10.3%), revenue generation (2.5%), revenue collection (2.5%) and area (2.7%). The North-West Frontier Province is to receive an additional 1% from the non-divisible pool as compensation for the losses it continues to suffer on the front line in the war on terror.

The 7th NFC award is widely seen as a step towards greater provincial autonomy. As such, and considering that the provinces will receive a greater share of funds, prospects for the introduction of environmental fiscal reform (EFR) are good. But other equally significant developments

towards the end of 2009 render the future of local-level governance bodies uncertain.

From 1 January 2010, the provinces will have the power to amend the Local Government Ordinances of 2001, in effect allowing them to modify or even abolish key features of the local government system. Already, three provinces have called for the role of local governments to be restricted to municipal functions, and for development projects and tax functions to be reviewed and assigned accordingly. What effect this will have on the introduction of EFR, which relies on the devolution of powers to the local level, will only become clear in the months ahead.

EXECUTIVE SUMMARY

In the 1990s, Pakistan experienced serious macroeconomic imbalances mainly on account of its fiscal profligacy. The country paid a heavy price for this indiscipline, witnessing decelerated economic growth, lower investment and an associated rise in poverty (GoP 2008b).

The economy has seen major and rapid structural changes in the last decade, with priorities shifting from agriculture to industry and services. Pakistan is now categorised as a ‘transforming country’, where agriculture is no longer

a major contributor to economic growth (IFAD 2008). These processes have increased GDP but led to serious losses in terms of the over-exploitation of natural resources and degradation of the environment.

On the economic front, Pakistan has made considerable progress in recent years. Real GDP growth has been rising, while the overall fiscal deficit declined steadily. Development expenditure in recent years has also shown a gradual increase. Yet Pakistan’s progress on the United

Nations Millennium Development Goals (MDGs) has been slow (Khan and Javed 2007). Extreme poverty, even by the government’s own calculations, has not decreased significantly. At the same time, the country’s environmental indicators are alarming.

Poverty and the environment

A healthy environment is crucial to poverty reduction and sustainable growth, particularly in low-income countries (WB 2005a). According to World Bank estimates, the annual cost

Abbottabad’s rugged terrain. © IUCN Pakistan



to Pakistan's economy of environmental damage and natural resource degradation is nearly 365 billion rupees, or 6% of GDP, which is nearly the same as the country's 2006 growth performance (GoP 2006a, WB 2006). Although the immediate and most severe effects of environmental degradation are suffered by the poor, the long-term risk is that the country will become trapped in a cycle of poverty.

With the degradation of ecosystems comes a decline in the quality of environmental services that ecosystems provide. Clean air and water, the maintenance of soil fertility and climate stability, the pollination of crops, the control of pests, the provision of genetic resources, and the production of food and fibre are just some of the environmental services that are critical not just for the rural poor but for the country as a whole.

Environmental fiscal reform

Innovative policies are required to achieve development targets while ensuring environmental sustainability. Environmental fiscal reform (EFR) is one such approach, and allows fiscal resources to be managed in such a way that development challenges can be tackled without sacrificing environmental conservation.

EFR has been described as a strategy that redirects government taxation and expenditure programmes to create an integrated set of activities in support of sustainable development (Green Economics 2008). The idea is to use fiscal instruments, directly or indirectly modifying the prices of biodiversity-related goods and services, to influence behaviour in order to provide incentives for environmental protection. The funds raised through these measures can be channelled to specific priority sectors, such as environmental conservation and poverty reduction.

Fiscal framework

National fiscal policy aimed primarily at economic growth has increased the vulnerability of poor communities and intensified environmental damage. These effects have contributed to the failure of development plans and poverty alleviation projects, minimising their benefits for the poorest and most marginalised segments of the population.

Fiscal policy requires fundamental reform to bridge the gap between revenue and expenditure on the one hand, and poverty alleviation and environmental sustainability goals on the other. Before such measure can be designed, however, it is important to examine the overall fiscal framework, particularly with respect to revenues and expenditure.

An assessment of taxation receipts over the period 2005–08 shows a gradual increase in overall revenues and an improvement in the tax/GDP ratio. Development expenditure over the same period has also increased but progress in poverty reduction and environmental protection has been discouraging. Poor utilisation of funding is partly to blame, with public-sector agencies and local administrations unable to plan and implement effectively. Poor financial decision making and spending efficiencies are also a chronic concern.

A key issue in this regard is that local governments do not have the fiscal authority to make revenue and expenditure decisions that reflect needs and priorities at the local level. Limited powers have been awarded under the devolution reforms of 2001. But for local governments to become robust and effective at local service delivery, opportunities need to be explored to create greater autonomy at the district level, allowing local governments to raise their own revenues and utilise these resources locally.

EFR options for Abbottabad

Various opportunities exist for the introduction of EFR measures in Abbottabad. These options are intended to serve as first steps towards systematic long-term reform in a wider range of sectors.

- **Drinking water:** Current water tariffs in the district do not reflect the economic cost of providing drinking water or the net social benefits and costs for other types of uses. EFR interventions proposed for this sector include water tariffs that reflect the cost of supply; user charges for community-managed systems; subsidies and support for low-income households; and investment in water-related ecosystem services and water supply infrastructure.
- **Solid waste:** The system of solid waste disposal in the district is inefficient and ineffective. EFR options for the sector include user fees and pollution taxes; investment to improve service delivery and infrastructure; improved waste collection and disposal; the installation of composting and recycling facilities; and private-sector involvement in waste collection.
- **Mining:** Techniques currently in use are crude and indiscriminate, with a devastating impact on the environment. Miners are poorly paid, and work in dangerous and unhealthy conditions. Mining operations also pose a grave risk to communities residing in the vicinity of mined areas. Key recommendations include a tax on natural resource extraction; the removal of perverse incentives and covert subsidies; the introduction of an environmental tax on polluters; and tax exemptions and other financial incentives for the use of environment-friendly technology.

- **Energy:** The use of hydrology and fossil fuels has a high environmental cost, with the government further burdened by subsidies on electricity. EFR options at the local level include mechanisms to protect the poorest households from the impact of tariff increases; and subsidies and tax exemptions for pollution control and the use and generation of alternative energy.
- **Motor vehicle pollution:** Abbottabad town is particularly vulnerable to the effects of air pollution. EFR options to tackle air pollution include a vehicle tax based on pollution; strict enforcement of pollution control laws and emissions standards; and heavy penalties for polluting vehicles.
- **Ecotourism:** This sector has the potential to create jobs and generate considerable income for the district. Options include entrance fees for all parks and reserves; improvement of tourist facilities; and revised management plans to include communities residing on the outskirts of protected areas, with special provisions for community participation in management and a share in the income.
- **Forests:** The majority of Abbottabad's forests are in a severely degraded state. Forest management lies within the jurisdiction of the provincial government, and this situation will need to be addressed through policy dialogue at the highest levels.

Issues and constraints

Under the decentralisation reforms of 2001, local governments exercise a limited degree of autonomy in a specified number of areas. Revenue generation at the district level is low and continues to decline, leaving local

governments almost entirely dependent on fiscal transfers from the federal and provincial governments.

At the same time, budgetary trends in the post-devolution period show that while the federal government has maintained a surplus of around 24% and provincial governments have experienced a deficit of roughly 24%, local governments have been unable to fully utilise their allocations. Yet district governments across the country remain chronically short of funds even for basic operational expenses.

This seeming anomaly arises as a result of a number of factors. Key among them are capacity constraints at the local level, with district, tehsil and union administrations still uncertain of their roles and responsibilities, and local officials continuing to struggle with procedural requirements such as budget preparation.

Successful EFR relies on the full involvement of local governments and, as such, meaningful reform will be impossible until the following issues are given consideration:

- capacity development;
- jurisdictional uncertainties and conflict with other government entities;
- limited fiscal autonomy;
- low potential for improving tax efficiency;
- absence of reliable data; and
- coordination between local governments and various provincial departments and public-sector organisations.

The broader framework

Certain structural and systemic changes are essential for successful EFR implementation in Abbottabad. These underlie the process of fiscal

reform and ensure that institutions and individuals involved in implementation are properly able to perform their designated functions. Key among them are the following:

- **Revenue collection:** establish effective mechanisms for revenue collection and consider new methods to improve collection.
- **Law and policy:** conduct a survey of the law and policy framework with respect to EFR; ensure that national policy on poverty and environment-related matters is properly implemented; and examine the implications of legal provisions for EFR implementation.
- **Fiscal mechanisms:** establish a separate fund in the local fiscal system and revisit the issue of district-level sustainable development funds.
- **Monitoring and evaluation:** introduce a results-based monitoring and evaluation system, and conduct a comprehensive mapping exercise to develop databases of taxes and fees.
- **Skills and support:** develop the skills of local government employees in matters related to financial planning and management, budgeting, and the requirements of the new system; ensure that resources and support are available; and provide technical support on environment-related matters.
- **Collaboration:** build collaborative links with higher tiers of government; ensure greater interaction between planning bodies and agencies; and lobby the federal and provincial governments for the devolution of fiscal power.
- **Awareness and education:** educate stakeholders; raise awareness among policy makers and within higher tiers of government; and conduct further research.

INTRODUCTION

Developing countries typically face severe public sector budget constraints as a result of low national income and difficulties in collecting taxes. Large budget deficits reduce the availability of public finance for investment generally, and for environmental investment in particular (WB 1998). Failures in budget planning and expenditure control, and distortions in the revenue component of fiscal policy, have led to chronic public deficits. Economic policy failures are exacerbated by factors such as the

absence of the rule of law, soft budget constraints, the lack of competition in government procurement, institutional corruption, underdeveloped civil society, little or no government accountability, and concerns about transparency (OECD 1998). As is the case with most developing countries, these issues are a part of the economic and policy milieu in Pakistan.

In the 1990s, Pakistan experienced serious macroeconomic imbalances mainly on account of its fiscal

profligacy. The persistence of a large fiscal deficit resulted in unsustainable levels of public debt and adversely affected the country's macroeconomic environment. The country paid a heavy price for its fiscal indiscipline, witnessing decelerated economic growth, low investment and an associated rise in poverty (GoP 2008b). Although less often discussed, rapid change in the structure of the economy over the last few decades has also led to unsustainable production and consumption processes.

A garbage dump on Mansehra Road. © PIDE



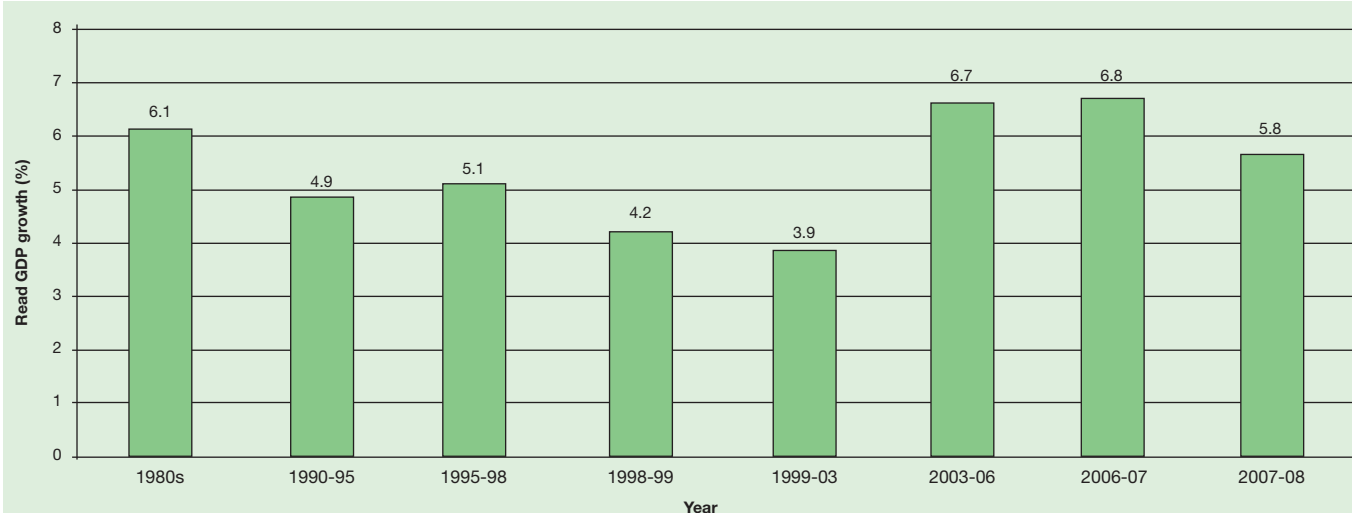
Like most developing countries, Pakistan's economy has seen major structural changes, with priorities shifting from agriculture to industry and services. According to the 2008 World Development Report, Pakistan is categorised as a 'transforming country', where agriculture is no longer a major contributor to economic growth (IFAD 2008). Significant changes in the agricultural sector have occurred as well, with the introduction of modern agricultural practices and excessive reliance on fertilisers and pesticides. The over-exploitation of natural

resources as inputs for industry is another trend the country has witnessed. These processes have increased GDP but have led the country to incur serious losses in terms of natural resource depletion and damage to the environment.

On the economic front, Pakistan has made considerable progress in recent years. After witnessing a steady decline between the 1980s and the period 1999–2002, real GDP growth began to rise, starting in 2003 (Figure 1). Average real GDP growth during the 2003–06

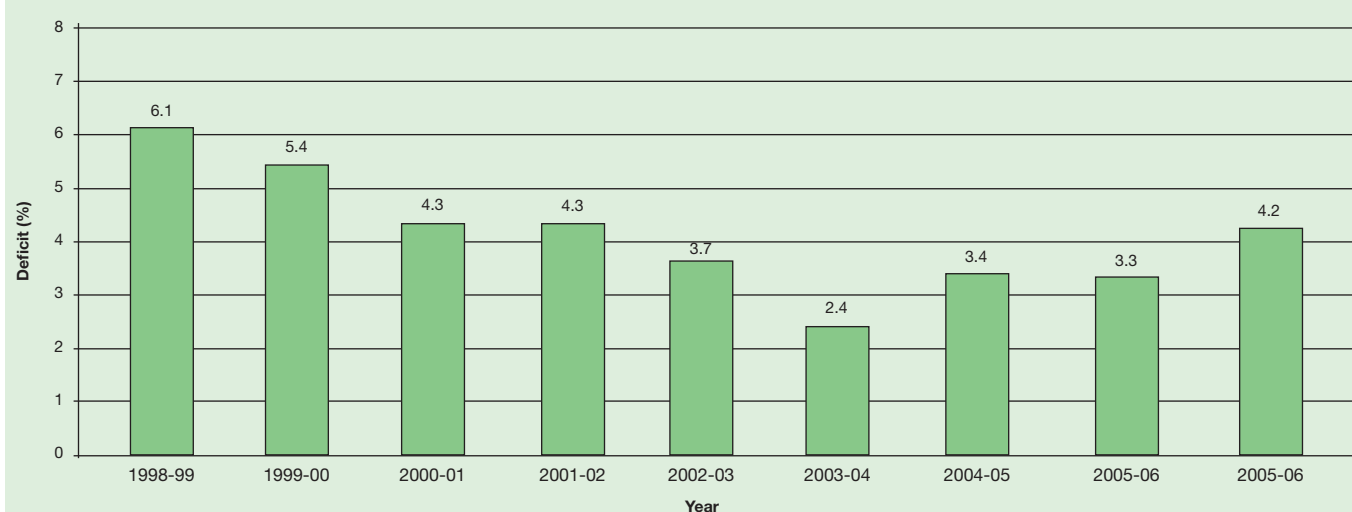
period was recorded at 6.7% and rose to 6.8% in 2006–07, supported primarily by three sectors: agriculture, industry and services. Agriculture and industry together contributed 40% to real GDP growth in 2006–07, with the remaining 60% coming from the services sector (GoP 2009a). This is partly due to public sector reforms in 2001, including the devolution of limited political, administrative and fiscal powers to lower tiers of government. The performance of key economic indicators between 1990 and 2006 is shown in Annex 1.

Figure 1: Trends in real GDP growth, 1980s-2008



Source: GoP 2009a.

Figure 2: Fiscal deficit, 1999-2007



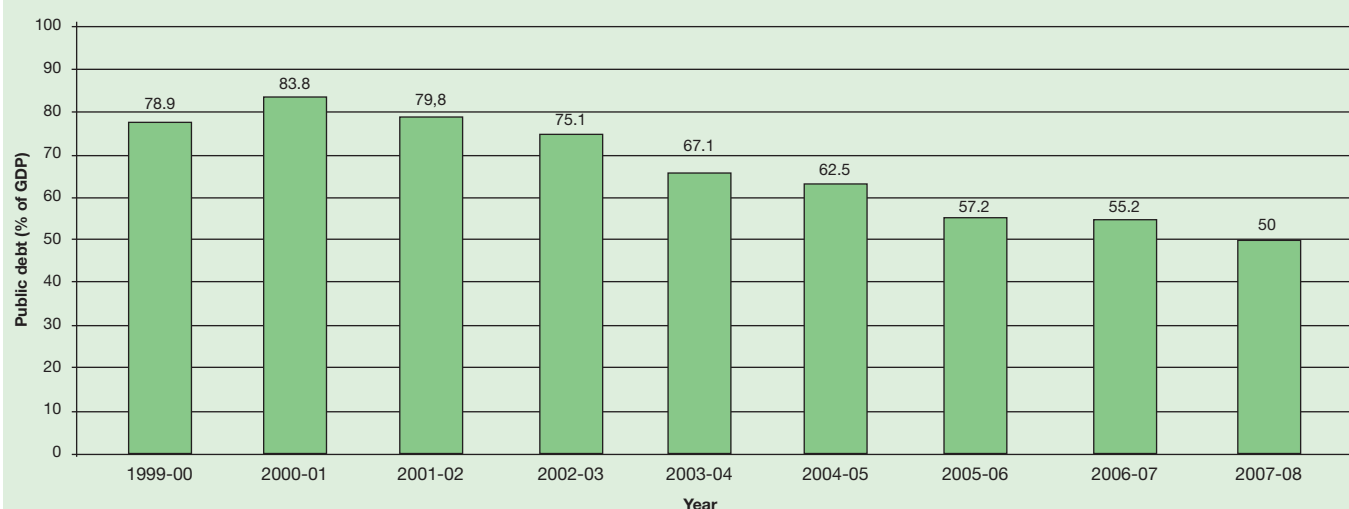
Source: GoP 2007a, GoP 2008c.

Table 1: Fiscal indicators, 1990-2007 (% of GDP)

Year	Real GDP growth	Overall fiscal deficit	Expenditure			Revenue		
			Total	Current	Development	Total	Tax	Non-tax
1990-91	5.4	8.8	25.7	19.3	6.4	16.9	12.7	4.2
1994-95	5.1	5.6	22.9	18.5	4.4	17.3	13.8	3.5
1999-00	3.9	5.4	18.7	16.5	2.2	13.5	10.7	2.8
2000-01	1.8	4.3	18.8	15.9	2.9	14.2	10.9	3.3
2001-02	3.1	4.3	18.8	15.9	2.9	14.2	10.9	3.3
2002-03	4.7	3.7	18.6	16.3	2.3	14.9	11.5	3.4
2003-04	7.5	2.4	16.7	13.5	3.2	14.3	11.0	3.3
2004-05	8.6	3.4	18.4	14.5	3.9	13.8	10.1	3.7
2005-06	6.6	3.3	18.7	14.4	4.3	14.2	10.4	3.8
2006-07	7.0	4.2	20.2	15.8	4.4	14.9	11.0	3.9

Source: GoP 2008b.

Figure 3: Public debt, 1999-2008



Source: GoP 2007a, GoP 2008c.

At the same time, the overall fiscal deficit which averaged nearly 7% of GDP in the 1990s declined steadily to hit 2.4% in 2003-04 before increasing once again to 3.4% in 2004-05 as a result of higher development spending (Figure 2). After a fractional decline in 2005-06, the fiscal deficit has hovered at 4% or more of GDP (4.2% in 2006-07), mainly on account of earthquake-related spending and increased development expenditure. The target for 2007-08 is 4% of GDP, with the government anticipating higher tax revenues as a result of a wider tax base (GoP 2008b).

Selected fiscal indicators as a percentage of GDP are shown in Table 1, according to which development expenditure in 1990-91 was 6.4%, falling to 2.2% in 1999-2000. From 2000-01, development expenditure started to increase gradually, reaching 4.4% of GDP in 2006-07. Although real GDP growth has steadily increased since 2000-01, there is no significant change in total government revenue as a percent of GDP. At the same time, the fiscal deficit has shown a steady increase since 2003-04.

Fiscal deficits create dependence on internal and external loans. Financing

fiscal deficits through borrowing also increases the likelihood of deficits occurring in the future, owing to the burden of annual debt repayment. After a record high in 2000-01 of 83.8% of GDP, public debt has declined steadily, to a projected 50% of GDP for 2007-08 (Figure 3). This reduction of public debt is mainly due to a reduction in fiscal and current account deficits along with the stability in exchange rates.

Some development indicators show improvement over the last two decades. Total investment as a percentage of GDP has risen steadily from a record low of 15.6% in 1998-99

to 21.7% in 2006–07 (Figure 4), reflecting the buoyant mood of domestic and foreign investors. Similarly, actual budgetary expenditure for development under Poverty Reduction Strategy Paper (PRSP) commitments has also grown, from 1% of GDP in 2001–02 and 1.1% in 2002–03, to a projected 2.5% of GDP in 2007–08.

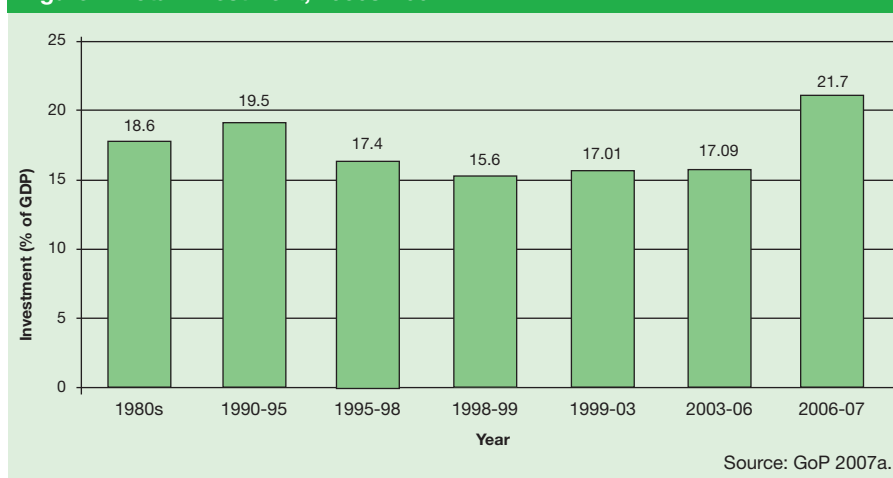
Implications

Governments in Pakistan have generally attempted to tackle fiscal deficits by cutting development allocations. Invariably, this means that poverty alleviation programmes suffer. Although the immediate effects are felt by the poor, the long-term risk is that the country will become trapped in cycle of poverty and debt, since insufficient development allocations and inadequate investment also affect other sectors, slowing down the pace of economic development. In such a scenario, government allocations for ecosystem conservation, restoration and rehabilitation are also likely to be cut.

The environment is an area that is hit hard by insufficient investment in poverty alleviation, especially in countries such as Pakistan where about two thirds of the population, and nearly 80% of the country's poor, live in rural areas and rely heavily on environmental goods and services for their livelihoods (WB 2007). When poverty increases, this puts even greater pressure on natural resources, setting in motion a vicious cycle.

With the degradation of ecosystems comes a decline in the quality of environmental services that ecosystems provide. The provision of clean air and water, the maintenance of soil fertility and climate stability, the pollination of crops, the control of pests, the provision of genetic resources, and the production of food and fibre are just some of the environmental services that

Figure 4: Total investment, 1980s-2007



are critical not just for the rural poor but for the country as a whole.

A healthy environment is crucial to poverty reduction and sustainable growth, particularly in low-income countries (WB 2005a). According to World Bank estimates, the annual cost to Pakistan's economy of environmental damage and natural resource degradation is nearly 365 billion rupees, or 6% of GDP (WB 2006). At 6% of GDP, the cost of environmental degradation is nearly the same as Pakistan's 2006 growth performance (GoP 2006a). The highest cost is calculated to be the result of inadequate water supply and poor sanitation (approximately 112 billion rupees), followed by agricultural soil degradation (70 billion) and indoor air pollution (67 billion). The estimated cost of urban air pollution (particulate matter) is 65 billion rupees, while that of lead exposure is 45 billion. Rangeland degradation and deforestation cost an estimated 7 billion rupees. These are conservative estimates, representing the lower bounds of damage and omitting several important categories (WB 2006). For example, fisheries and coastal zone degradation have not been included in these calculations, with the result that actual costs are likely to be higher and the full financial impact of environmental degradation is unknown.

To date, Pakistan's progress on the United Nations Millennium Development Goals (MDGs) has been slow, largely as a result of insufficient spending on sectors such as health, education, water and sanitation (Khan and Javed 2007). But dependence on external or internal loans is not a viable solution, and other means are required to address chronic resource constraints.

Environmental fiscal reform

As is the case with most developing countries, Pakistan continues to rely on traditional mechanisms to raise revenues, which include external and internal loans, donor finance, international aid, direct taxes, and charges on goods and services. These mechanisms have failed to generate sufficient funds for meaningful improvement in critical sectors such as health, education, poverty alleviation and environmental conservation. Nor is it likely that in the future these same approaches will succeed in generating the required resources.

Innovative policies are required, to achieve development targets while ensuring environmental sustainability. Environmental fiscal reform (EFR) is one way of generating financial resources to

address these concerns, and to achieve environmental sustainability and poverty reduction.

EFR has been described as a strategy that redirects government taxation and expenditure programmes to create an integrated set of activities in support of sustainable development (Green Economics 2008). It allows governments to raise revenues by redirecting fiscal policy to expand the revenue base through environment-related sources of income, and by channelling the resources to specific priority sectors. This can be done in a way that reduces expenditure in areas that increase pollution and impoverish societies, thereby freeing up resources for investment in areas that enhance environmental quality and the well-being of the poor. This includes the use of policy tools such as taxation, tax exemptions, permit trading, tax rebates, direct expenditure, programme expenditure and tax credits. The idea is to use fiscal instruments, directly or indirectly modifying the prices of biodiversity-related goods and services, to influence behaviour in order to provide incentives for environmental or biodiversity conservation.

Objectives of the study

This report examines revenue and expenditure patterns in Pakistan and in the district of Abbottabad. It explores opportunities to incorporate EFR measures into fiscal policy to finance pro-poor activities and environmental conservation. It is designed to support the implementation of EFR initiatives in Pakistan, starting with the district of Abbottabad in the North-West Frontier Province (NWFP).

The main objectives of this study are as follows:

- Gather information on fiscal policy in Pakistan.
- Identify current revenue sources, and analyse issues and constraints.
- Identify government expenditure, particularly pro-poor and environment-related expenditure, and analyse issues and constraints.
- Examine the links between EFR, revenue and expenditure, poverty reduction, and environmental sustainability.
- Analyse the poverty profile and environmental status of Abbottabad district, and examine institutional arrangements.

- Explore issues, constraints and opportunities for pro-poor EFR implementation in Abbottabad.
- Derive conclusions and recommendations to facilitate the implementation of pro-poor EFR in Abbottabad.

Methodology

The preparation of this document involved comprehensive desk study, covering the revenue and expenditure of the Government of Pakistan and the district administration of Abbottabad. The study relies on secondary sources including literature related to Pakistan's fiscal policy; information concerning government budgets and MDG expenditures; project reports; and reports from the Federal Board of Revenue, the Ministry of Finance and other government departments. Data was also collected from various government and non-government agencies with respect to development plans and policies, and progress on MDGs. The *State of Environment and Development* and *Integrated Development Vision* documents (IUCN 2004a, IUCN 2004b) related to Abbottabad were helpful in understanding the environmental status of the district and its vision for the future.

POVERTY AND THE ENVIRONMENT IN PAKISTAN

Pakistan is home to the seventh-largest population in the world, with nearly 150 million people and an annual population growth rate of 2.4%. Average annual per capita income, at 470 US dollars, puts Pakistan in the category of low-income countries (WB 2005b). The poor in Pakistan, the majority of whom live in rural areas or urban slums, lack access to basic social services such as education, health care, sanitation and safe water. Illness and malnutrition have knock-on effects on education and labour efficiency, thereby affecting the economy as a whole.

Poverty and development

Some 32% of Pakistanis (36.3% rural and 22.4% urban) live below the poverty line (IUCN 2004b). In absolute numbers, the count of poor persons

has fallen from 49.23 million in 2001 to 36.45 million in 2004–05, assessed on the basis of a poverty line of 723.40 rupees per capita per month for 2001 and 878.64 rupees for 2005 (GoP 2006b). But a closer look at the figures, disaggregated by ‘poverty bands’, reveals a different picture.

There are six such groupings: extremely poor, ultra poor, poor, vulnerable, quasi poor, and non-poor. Between 2001 and 2005, the number of ‘extremely poor’ remained more or less unchanged, going from 1.1% of the overall population in 2001 to 1% of the population in 2005. Similarly, the number of those classified as ‘vulnerable’ (groups among whom any negative macro or personal shock could easily shift the household into

the ‘poor’ category) has not shown significant improvement, declining by just 2.45%, from 22.5% in 2001 to 20.05% in 2005. This suggests that development expenditure is failing to reach those who are most in need.

Consumption expenditure is another way of assessing poverty and in Pakistan mean real monthly consumption expenditure per adult rose between 2000–01 and 2004–05, from 1,004 rupees to 1,171 rupees, a rise of 16.6% in constant prices (GoP 2006b). But consumption inequality, as measured by the Gini coefficient, increased during the same period: while the richest 40% gained in their consumption share, the poorest 60% lost their consumption share. This is strong evidence to support the view that inequality has increased at the expense of low- and middle-income groups.

Certain groups are also more vulnerable, depending on their occupation (GoP 2007b). For example, the highest percentage of the country’s poor (46.63%) are employed in the agriculture, livestock, forestry and fishery sectors (Table 2). In other words, the vast majority of those classified as poor depend on natural resources for their subsistence. Quarry and mine workers also constitute a significant proportion (13.87%) of the extremely poor.

In terms of other development indicators such as education, health and gender equity, Pakistan has made

A homeless person sleeps on the pavement on Mansehra Road. © PIDE



Table 2: Poverty assessment by sector (2000-01)

Sector	Extremely poor	Chronically poor	Transitory poor	Transitory vulnerable	Transitory non-poor	Non poor	Total
Agriculture, livestock, forestry, fishery	46.63	58.20	53.80	51.45	44.41	28.99	47.48
Wholesale, retail, restaurants, hotels	14.58	6.72	9.18	10.45	13.24	17.69	11.63
Mining, quarrying, manufacturing	13.87	11.26	10.79	10.86	11.78	12.63	11.46
Construction	11.42	8.64	9.38	6.09	4.84	2.99	6.39
Community, social and personal services	9.31	10.53	11.69	15.18	18.42	27.95	16.50
Transport, storage, communication	3.54	4.18	4.42	4.87	5.76	6.08	5.10
Electricity, gas, water	0.39	0.23	0.34	0.73	0.76	1.24	0.66
Finance, insurance, real state, business services	0.26	0.0	0.15	0.17	0.56	2.34	0.56
Activities not adequately defined	0.0	0.24	0.25	0.20	0.23	0.09	0.22
Total	100	100	100	100	100	100	100

Source: GoP 2007b.

some progress but still has a long way to go. In 2005–06, 53% of children aged 5 to 9 years were enrolled in primary school, up from 42% in 2001, although this figure is still unacceptable. In addition, the quality of education remains a key issue. Although there has been some progress in terms of gender equality in education, with the ratio of female to male primary enrolment increasing from 0.68 in 1991 to 0.85 in 2005–06, female literacy rates continue to be low, with just over a third of adult females counted as literate, compared to nearly two thirds of adult men (GoP 2006b).

Health indicators show some improvement, with under-5 mortality rates falling from 130 deaths per 1,000 live births in 1990 to 99 in 2005. Nevertheless, the country's infant and child mortality rates are the highest in South Asia, with the prevalence of childhood diarrhoea and acute respiratory infections, and Pakistan has the 6th-highest number of maternal deaths in the world, with approximately 300–400 deaths per 100,000 births (GoP 2006b).

Environment

Degraded soils, rising levels of air and water pollution, and a dramatic decline

in forest cover are some of the environmental threats that Pakistan faces. The country is largely arid and uniquely disadvantaged by its dependence for surface water on a single river, the Indus. Pakistan is therefore more vulnerable to the effects of basin degradation and water pollution than any other country in the region. Agricultural growth is further threatened by depleting soil fertility, degrading rangelands and encroaching deserts, while coastal wetlands are losing their productive potential. Since an estimated 70% of the country's population resides in rural areas where livelihoods depend heavily on natural resources, a degraded resource base directly affects poverty (WB 2006).

Agriculture contributes about 25% to GDP but the sustainability of agricultural production is threatened for a variety of reasons. While 80% of farmland across the country is irrigated, nearly 40% of this area is water-logged and 14% is saline, damaging the soil structure and lowering productivity (WB 2006).

Water is a key concern. Population growth coupled with the demands of industrialisation and urbanisation are expected to create conditions of severe scarcity in the coming decades. Water

shortages, already chronic in many parts of the country, are compounded by quality issues. Untreated pollutants from industrial, agricultural and municipal sources are released directly into water bodies intended for human consumption. The result is heavily polluted water around towns and cities and a high incidence of disease, especially among the urban poor (WB 2006).

Forest and rangeland production is at risk, with rates of deforestation about ten times the regional average, while rangeland productivity is estimated to be only one third of its potential, with up to 80% of rangeland in a degraded state. Rangelands are also home to some of the country's poorest communities, so the impact of pasture loss is highly regressive, falling disproportionately on the rural poor.

Policy framework

Pakistan has made good progress in terms of environmental plans, policies and legislation. Starting with the National Conservation Strategy of 1992 and the Pakistan Environmental Protection Act of 1997, the country has gone on to formulate the Pakistan National Conservation Strategy: Renewing Commitment to Action 2000

and the National Environmental Action Plan of 2001. But implementation has remained problematic, both for strategy commitments and legal provisions.

In 2005, the government launched the National Environmental Policy (NEP), which provides guidelines to address environmental concerns in a variety of sectors. The policy has five stated objectives:

- Conservation, restoration and efficient management of environmental resources.
- Integration of environmental concerns in policy making and planning processes.
- Building the capacity of government agencies and other stakeholders at all levels for better environmental management.
- Meeting international obligations effectively.
- Creating a demand for environmental conservation through mass awareness and community mobilisation.

The NEP guidelines provide a number of opportunities for EFR implementation. In the water supply sector, for example, the NEP recommends the installation of water meters to discourage waste both for industry and in households. Similarly, with respect to air quality and noise pollution, the NEP calls for the improved control of harmful emissions, the need to ensure that standards for vehicle emissions and fuel specifications are properly enforced, and the promotion of cleaner production technologies. NEP guidelines for solid waste disposal are also in line with EFR criteria, such as quality standards, a discharge licensing

system for industry, the encouragement of recycling and financial incentives for waste management initiatives. The reduction or elimination of tariffs, and the provision of low-interest loans for the adoption of cleaner technologies and pollution control measures, are encouraged in the NEP, which proposes the use of economic and market-based instruments. All of these measures are perfectly aligned with EFR priorities and objectives.

In the case of other sectors (forestry, biodiversity and protected areas, climate change and ozone depletion, energy efficiency and renewable energy, agriculture and livestock, multilateral environmental agreements), the NEP provides detailed guidelines to ensure sustainability but these recommendations fall short of EFR requirements. In general, the policy fails to consider certain crucial aspects such as equity issues that are prevalent in all sectors.

Although the NEP places focus on the 'poverty-environmental nexus', specifically mentioning the need to achieve environmental sustainability and poverty reduction, no attempt is made to explain how development funding might be distributed in such a way that both objectives can be achieved simultaneously. The NEP nevertheless contains guidelines for integrating poverty and environment issues into economic policy, and for increasing budget allocations to address poverty-environment issues.

The devolution of administrative and financial authority is another important requirement for EFR implementation and these issues are also included in the

NEP, under a separate section on local governance. The policy emphasises the need to devolve powers to local governments to ensure effective environmental management, and to establish sustainable development funds at the district level. These guidelines, if followed in both letter and spirit, would allow local governments to introduce EFR within their own areas of jurisdiction.

Also in 2005, the federal government released the Medium Term Development Framework (MTDF) 2005–10, which focuses on poverty reduction (GoP 2005). Major policy commitments outlined in the MTDF include raising income levels, improving access to resources, providing opportunities to participate in the development process, and establishing safety nets to reduce vulnerability to risk and shocks.

The MTDF covers four basic themes: pro-poor growth, social development, good governance and the protection of vulnerable groups. It is aligned with Pakistan's MDG commitments, setting targets to halve the proportion of people living below the poverty line and to halve the proportion of the population suffering from hunger. It also takes into consideration the MDG of environmental sustainability, committing to significant investment in the environment sector.

Together, the NEP and the MTDF provide a strong foundation for the implementation of pro-poor EFR. In fact, the federal government's policy commitments already include measures and strategies that are aligned with EFR objectives.

FISCAL FRAMEWORK

Poorly designed fiscal policy can have unexpected and detrimental effects not just on the economy or the country's development indicators but on society as a whole and on sectors such as environmental management. Already, fiscal policies aimed primarily at economic growth have increased the vulnerability of poor communities and intensified environmental damage. These effects have contributed to the failure of development plans and poverty alleviation programmes, minimising their benefits for the poorest and most marginalised segments of the population.

Fiscal policy can play a major role in influencing the direction of expenditure to achieve poverty alleviation and environmental sustainability. Policy measures can be used to raise revenues from resource users and to channel those funds towards activities that target the poorest and most vulnerable communities. Policy can also target specific objectives to increase the efficiency of resource use,

minimise environmental pollution, control over-exploitation and ensure that polluters pay for the damage they cause. Reform of this sort can bridge the gap between revenue and expenditure on the one hand, and poverty alleviation and environmental sustainability goals on the other. Before such measure can be designed, however, it is important to examine the overall fiscal framework, particularly with respect to revenues and expenditure.

Revenue

Taxation is the main source of revenue for the government of Pakistan. The Federal Board of Revenue and its subordinate departments (income tax, customs, central excise and sales tax) administer Pakistan's tax system.

An assessment of taxation receipts over the period 2005–2008 shows a gradual increase in overall revenues (Table 3). In 2006–07, net taxation revenue amounted to 846.4 billion

rupees, exceeding that year's target of 835 billion by 11.4 billion (or 1.4%) and ahead of the previous year's net collection by 133.9 billion. As a result, the tax/GDP ratio rose from 9.4% in 2005–06 to 9.7% in 2006–07 (GoP 2008b). Revenue receipts of the federal government for the period 2003–08 are shown in Annex 2. Provisional collection for the year 2007–08 is higher still, at 1,001.2 billion rupees, with targets for both direct and indirect taxation expected to be exceeded by about 25%. Provincial revenue receipts between 1997 and 2007 are shown in Annex 3.

An examination of individual taxes during the year 2006–07 shows that direct taxes surpassed original as well as upwardly revised targets of 264.7 billion and 318 billion rupees, respectively. In terms of value, net collection reached 333.4 billion rupees, which is 108.4 billion higher than the previous year. Despite this rapid growth, indirect taxes (sales tax, customs duties and excise duties) remain the largest contributor to federal tax revenues (Table 4). Central Board of Revenue tax collection from 2003 to 2008 is shown in Annex 2.

For the purposes of EFR, this is a positive trend since a number of indirect tax sources can be linked to environmental objectives. This is particularly so in the case of the petroleum industry, conventional energy generation projects, and manufacturing processes involving plastics, cement and fertiliser, all of which have a direct

Table 3: Net tax collection (billion rupees)

Taxes	2005-06	2006-07	2007-08
Direct taxes (A)	224.6	333.4	383.3
Indirect taxes (B)	487.9	513.0	617.9
- Sales tax	294.6	309.3	375.8
Import related	171.7	175.8	
Domestic production	123.0	133.5	
- Customs duty	138.2	132.2	150.7
- Central excise	55.0	71.5	91.4
Total tax (net) A+B	712.5	846.4	1,001.2

Source: GoP 2008b.

and negative impact on the environment. Taxes on these sectors are a good place to introduce EFR, not only for the purpose of raising revenues but also to discourage environmentally harmful practices.

Expenditure

Pakistan has attempted to maintain fiscal discipline for the last several years. During 2006–07, total expenditure stood at 1,675 billion rupees, or 19.2% of GDP, an increase of 273 billion or 19.47% from the previous year (GoP 2008b). As a percentage of GDP, total expenditure increased by 1.1% from 2005–06. The original target for total expenditure in 2006–07 was 1,536.6 billion rupees, or 17.6% of GDP, which was exceeded by 138.4 billion rupees (GoP 2008b). Interest payments and defence spending constitute the major components of current expenditure. During the fiscal year 2006–07, current expenditure amounted to 1,375 billion rupees or 15.8% of GDP, exceeding the target amount by 268.5 billion rupees. Development expenditure for the same period stood at 425 billion rupees (or 4.9% of GDP), missing the target of 430 billion by 5 billion rupees. The amount spent was nevertheless higher than 2005–06, when development spending totalled 367 billion (GoP 2008a). Federal government expenditure and financing for 2003–08 is shown in Annex 2.

According to the government's budget statement, total expenditure during the fiscal year 2007–08 stood at 2,276.5 billion rupees, which was higher than the previous year (1,675 billion), registering an increase of 35.9% (GoP 2009a). Total expenditure as a percentage of GDP was calculated to be 21.7%, up from 19.2% in the previous year. The original target for total expenditure in 2007–08 was 1,875 billion rupees or 18.8% of GDP, which was exceeded by 401.5 billion. Consolidated federal and provincial

Table 4: Major revenue sources for indirect taxes (billion rupees)

Sector	Indirect taxes			Share in gross (%)	
	2005-06	2006-07	Growth (%)	2005-06	2006-07
Petroleum	105.1	119.5	14.2	19.5	21.2
Auto sector	63.1	47.3	-24.8	11.7	8.4
Telecom	28.3	38.1	34.5	5.2	6.8
Cigarettes	28.9	34.2	17.5	5.4	6.1
Machinery	26.4	29.5	11.6	4.9	5.2
Edible oils	23.2	25.9	11.6	4.3	4.6
Iron and steel	27.3	23.0	-15.9	5.1	4.1
Cement	17.6	20.0	13.8	3.3	3.6
Natural gas	19.8	18.4	-7.2	3.7	3.3
Plastics	14.9	16.1	7.3	2.8	2.9
Chemicals	13.7	14.4	5.2	2.5	2.6
Sugar	15.3	13.5	-12.1	2.8	2.4
Electricity	13.4	13.0	-3.1	2.5	2.3
Fertiliser	12.1	12.8	5.8	0.9	2.0
Beverages	8.9	10.6	18.9	1.6	1.9
Textiles	5.2	5.4	2.8	1.0	1.0
Coffee, tea	4.4	4.4	0.0	0.8	0.8
Other	111.2	116.8	4.4	22.0	20.8
Gross	538.8	562.9	4.47	100	100

Source: GoP 2008b.

Table 5: PRSP expenditure by sector, 2001-05 (million rupees)

Rank	Sector	Expenditure 2001-05	Percentage of total
1	Education	415,843	38.7
2	Law and order	154,083	14.3
3	Health	117,522	10.9
4	Irrigation	94,199	8.8
5	Roads, highways and bridges	85,744	8.0
6	Rural development	74,599	6.9
7	Food subsidies	39,634	3.7
8	Water supply	24,899	2.3
9	Population planning	15,306	1.4
10	Social security	12,715	1.2
11	Food support programme	10,602	1.0
12	Justice and courts	9,730	0.9
13	Land reclamation	9,078	0.8
14	Village electrification	5,776	0.5
15	Natural calamities and other expenditure	2,962	0.3
16	Tawana Pakistan	2,268	0.2
17	Low-cost housing	776	0.1
	Total	1,075,736	100

Source: Tahir et al. 2006.

Table 6: PRSP current and development expenditure, 2001-08 (million rupees)

Year	PRSP expenditure (billion rupees)			PRSP expenditure as % of GDP		
	Current	Development	Total	Current	Development	Total
2001-02	37.64	129.64	167.28	2.95	0.86	3.81
2002-03	44.21	164.32	208.53	3.41	0.92	4.33
2003-04	78.98	182.32	261.30	3.23	1.43	4.63
2004-05	112.64	203.61	316.24	3.09	1.71	4.81
2005-06*	112.34	263.80	376.14	1.47	3.46	4.93
2006-07*	215.72	210.96	426.48	2.47	2.42	4.89
2007-08*	301.40	270.69	572.62	2.88	2.58	5.46

* Based on actual expenditure.

Source: GoP 2009b.

revenue and expenditure for the period 2000-07 is shown in Annex 4.

‘Pro-poor’ expenditure

According to the Fiscal Responsibility and Debt Limitation Act of 2005, ‘social

and poverty-related’ expenditure includes spending in the following areas: highways, roads and bridges; water supply and sanitation; education; health; population planning; social security and welfare; natural calamities;

irrigation; land reclamation; rural development; food subsidies; the subordinate judiciary; the ‘development aspects’ of law and order; village electrification; food support programmes; and other expenditures specified in the PRSP. This includes special programme expenditure in areas covered by MDG targets for poverty alleviation and environmental sustainability.

Table 7: Pro-poor expenditure, 2005-06 to 2007-08 (billion rupees)

Sector	Year		
	2005-06 (actual)	2006-07 (actual)	2007-08 (projected)
Community services	63.6	76.6	82.5
Roads, highways and bridges	53.3	60.0	69.1
Water supply and sanitation	10.3	16.6	13.4
Human development	217.9	231.8	316.3
Education	141.7	162.1	224.7
Health	39.2	53.2	62.3
Population planning	10.2	7.0	13.3
Social security and social welfare	7.6	4.5	9.8
Natural calamities/disasters	19.2	5.0	6.2
Rural development	78.5	101.8	101.9
Irrigation	59.8	74.8	77.6
Land reclamation	2.7	2.3	3.5
Rural development	15.0	22.2	19.5
Village electrification	1.0	2.5	1.3
Safety nets	9.4	9.2	12.2
Food subsidies	6.0	5.5	7.8
Food Support Programme	3.1	3.5	4.0
Low-cost housing	0.3	0.3	0.4
Governance	65.2	78.1	84.6
Law and order	59.6	73	77.3
Administration of justice	5.6	5.1	7.3
Total	434.6	497.5	597.5
As percentage of GDP	5.5	5.7	5.7

Source: GoP 2008a.

The Fiscal Responsibility and Debt Limitation Act also states that in any given year the government’s social and poverty alleviation expenditure should not fall below 4.5% of estimated GDP, and that budgetary allocations for health and education are to be doubled (in terms of percentage of GDP) over 10 years.

Total government expenditure during the years 2001-2005 stood at 4,435 billion rupees. Of this amount, 1075.7 billion, or 24%, was related to PRSP sectors. This exceeded the target of 981.4 billion by 9.6%. Annual figures for PRSP expenditure during this period show steady improvement, with PRSP spending amounting to 17% of the total in 2001 but 30% of total expenditure by 2005 (Tahir et al. 2006).

Between 2001 and 2005, the sectors that received the highest priority were education, law and order, and health, which together absorbed 63.9% of



A water meter in Nawansher. © PIDE

total PRSP expenditure (Table 5). Irrigation, roads and rural development together comprised 23.7% of total expenditure, while the cumulative share of the remaining 11 sectors amounted to only 12.4% of the total. Since 2005, PRSP expenditure has risen steadily, with 2007–08 spending amounting to 572 billion rupees or 5.46% of GDP (Table 6). Spending priorities have also shifted (Table 7). PRSP budgetary expenditure for the year 2007–08 is shown in Annex 5.

The steady increase in development allocations has been driven by government policy as stated in the MTDf 2005–10 (GoP 2005). As a result, during the first three years of MTDf implementation, funding for the environment sector received unprecedented priority. The federal Public Sector Development Programme (PSDP) allocation for the sector was 745 million rupees in 2004–05, rising to 3.1 billion in 2005–06, 6.5 billion in 2006–07 and

8.5 billion rupees in 2007–08 (GoP 2008a).

Despite this increase, progress in both poverty reduction and environmental protection has been discouraging. Poor utilisation of funding is partly to blame, with public-sector agencies and local administrations unable to plan and implement effectively. Poor financial decision making and spending efficiencies are also a concern.

ABBOTTABAD DISTRICT

Abbottabad district is located in predominantly mountainous terrain, spread over an area of 1,967 km². According to the 1998 census, the population of the district stood at 928,000, with 82% of its residents living in rural areas (IUCN 2004b). With an average annual population growth rate of up to 2%, the current population is estimated to be 1.08 million, with 862,000 (80%) residing in rural areas (GoNWFP 2009a). Population density in 1998 was calculated at 447.7 persons per km² but is now likely to be higher. The average household comprises 6 persons.

An assessment of census trends starting with the 1972 census period demonstrates a pattern of progressive urbanisation. In 1972, the district's urban population stood at 12.5% of the total while current population estimates put this figure as high as 20%.

Poverty

In the country as a whole, poverty is relatively higher among those who work as unskilled agricultural labourers or are engaged in the services, transport, production and sales sectors (GoP 2001). This is closely mirrored in Abbottabad, where the majority of the population relies on subsistence agriculture (IUCN 2004b). Unemployment in the district is high, at more than 30%.

In Abbottabad, 34% of the population lives below the poverty line, defined by the Bureau of Statistics as an average daily intake of 2,200 calories. Other

means to assess the standard of living show that 27% of the population (29% rural and 20% urban) lives in one-room houses while more than one third (31%) of the district's residents live in housing units made of unbaked brick or earth (35% rural and 12% urban).

Overall literacy in the district, as assessed in the year 2000, stands at 64% but disparities exist in terms of gender (IUCN 2004b). Nearly 81% of the male population is literate while among females the overall literacy rate is just 51%. There is an equally dramatic difference between urban and rural areas, with overall literacy in urban areas as high as 87% and as low as 57% in rural areas. In terms of health

care as well, rural residents are at a distinct disadvantage with the majority of the district's medical facilities operating in urban centres.

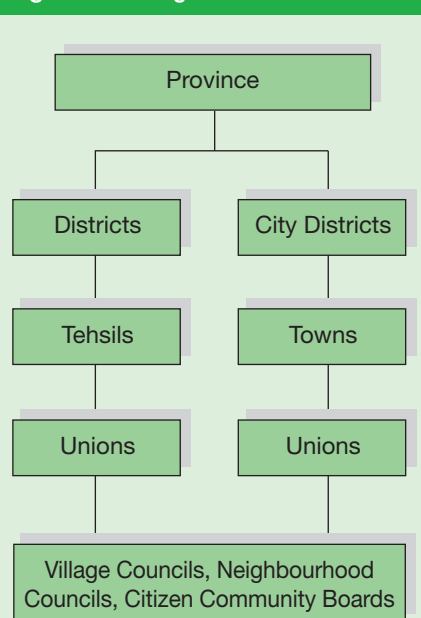
Environment

Abbottabad's rural residents depend heavily on natural resources for their subsistence. As such, the environmental goods and services provided by ecosystems are critical for rural livelihoods. Urban areas face different challenges, arising primarily from congestion, unplanned construction and the poor performance of such municipal services as waste disposal.

Water is a key concern in both urban and rural areas. While 48% of land in the district is used for agriculture, only 4% of farmland is irrigated, with the result that productivity is low. Freshwater supplies are also dwindling, with further scarcity created by decreasing rainfall. In urban centres, many areas go without water for most of the day and supply though pipelines is heavily contaminated. Ground water and surface sources across the district are also polluted by the indiscriminate dumping of municipal waste and untreated runoff from activities such as mining.

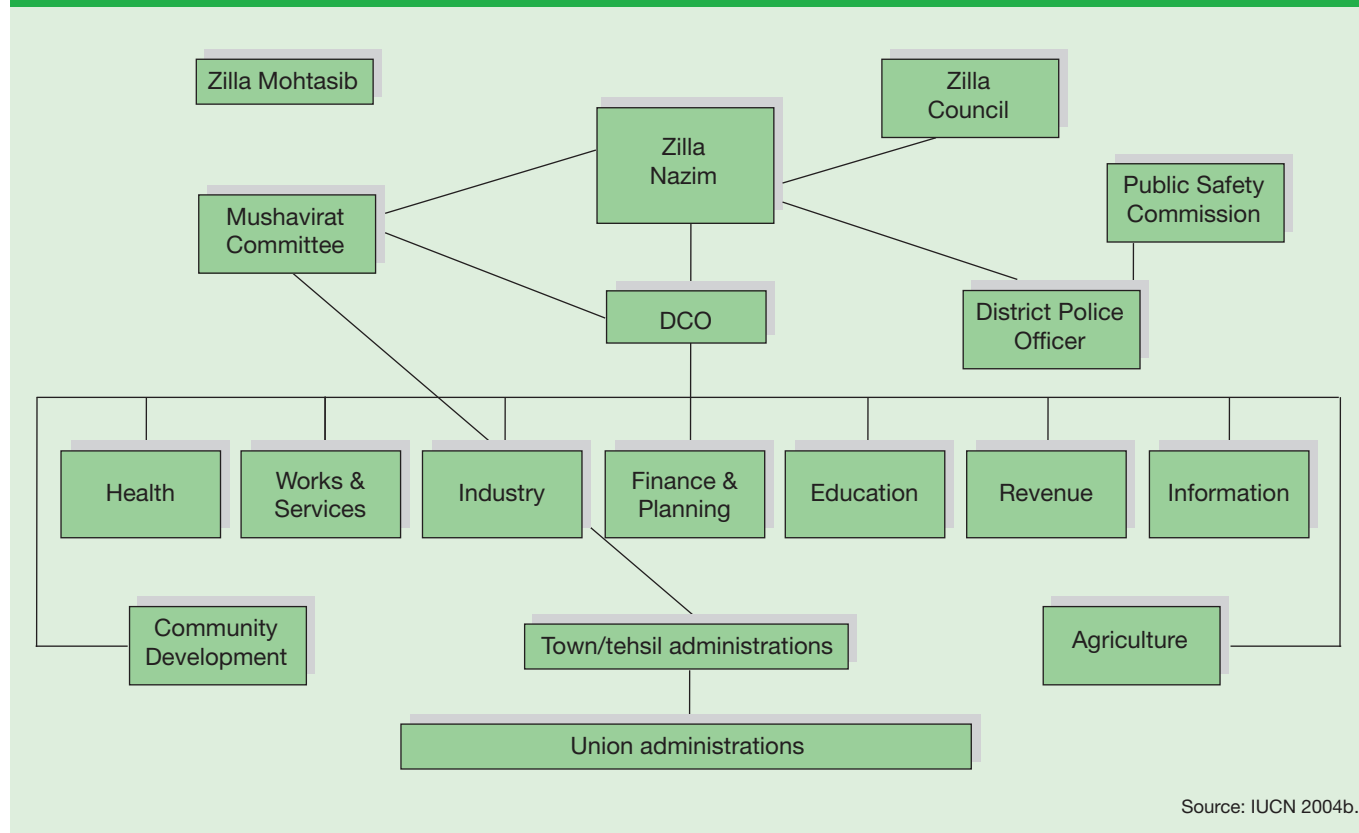
Pollution is a problem in both urban and rural areas. Abbottabad city is particularly vulnerable to air pollution as a result of its location at the intersection of major highways. In urban areas, municipal waste is frequently burned in the open, creating further pollution. Air

Figure 5: Local government structure



Source: Adapted from NWFP LGO 2001.

Figure 6: Administrative structure of the local government



quality in rural areas is severely affected in and around villages that are located in the vicinity of mines, since mining operations are carried out without any measures to prevent the dispersal of particulate matter.

Mining operations also have a devastating impact on the ecology, since the methods in use are crude and indiscriminate. Environmental impact assessments are rarely conducted and pollution control laws are never enforced. Once mining operations are completed, no effort is made to clean up or rehabilitate the area.

Some 45% of Abbottabad's forests are in a seriously degraded state. Rural residents depend heavily on firewood for cooking and heating but an even greater threat to forest resources comes from indiscriminate felling and the illegal removal of timber, carried out

by contractors. Forests as well as agricultural lands in peri-urban areas are rapidly being converted for residential and commercial use, putting further pressure on scarce resources.

District administration

Governance reform in Pakistan was initiated under the provincial Local Government Ordinances (LGOs) of 2001, with the aim of decentralising political power, administrative authority and management functions. The structure of the local government system is shown in Figure 5. Local governments exist as an extension of the provinces, exercising functions delegated to them by the provincial government. This has implications for revenue mobilisation and expenditure obligations at various levels.

The zilla nazim heads the district administration (Figure 6). Matters

related to policy, budgets and taxation are approved by the zilla council, a body comprised of elected representatives from the lowest tier of the local government hierarchy (the union). Abbottabad district consists of two tehsils (sub-divisions), Abbottabad and Havelian, with 35 and 16 union councils respectively.

The district government is responsible for the construction, operation and maintenance of district roads, as well as for education, water supply and health services. Sewerage, sanitation and fire services are managed at the tehsil level. Parks and playgrounds, cultural and sports activities, and street lights are administered by union councils.

REVENUE AND EXPENDITURE AT THE DISTRICT LEVEL

Funding for local governments is provided by the province, which in turn receives allocations from the federal government. The share for each district is determined at the provincial level, by a provincial finance commission (PFC). Each PFC is required to evolve a formula for the distribution of resources to the districts. In the NWFP, the formula takes into account a number of factors, including population, development (or 'backwardness'), revenue generation capacity and expenditure requirements. These transfers are meant to fund essential services and encourage spending in priority areas.

Local governments have limited powers to raise additional revenues through their own sources, mainly in the form of user charges for municipal services and certain licence fees. Each local government operates a fund which includes revenues received from the province as well as its own income, including:

- transfers from the provincial government;
- proceeds from taxes or charges levied by the local government;
- fines imposed for offences specified in the LGO, its by-laws and other laws;
- rent and profit from immovable property vested in or controlled by the local government;
- proceeds or profits from bank accounts, investments or commercial enterprises;
- gifts, grants or contributions by individuals or institutions;
- receipts from trusts administered or managed by the local government;
- income from markets or fairs;
- transfers from another local government; and
- all proceeds from other sources of income placed at the disposal

Clearing away garbage on Mansehra Road. © PIDE



of a local government under directions of the provincial government.

Each tier in the district administration maintains its own fund, for the same purposes. The district government may transfer approved budgeted amounts to any lower tier, and to village councils, neighbourhood councils and citizen community boards (CCBs) within its area of jurisdiction for project activity or services. No local government is allowed to transfer monies to a higher tier of government except for repayment of debts contracted before the coming into force of the LGO. The main reporting document for fiscal activities in Abbottabad is the district annual budget, which includes potential expenditure opportunities.

Revenues

The largest share of the district's revenues comes through the PFC 'award' determined by the province. The federal government also transfers funds directly to local governments. These take the form of special allocations from discretionary funds at the disposal of the President, Prime Minister and members of Parliament, and through national and international development projects and aid programmes. Similarly, higher tiers within the local government may transfer funds to lower tiers (Ahmad et al. 2007, Jaffery and Sadaqat 2006).

Various tiers of the local government may also raise funds by levying taxes and fees (see Annex 6). Taxes that zilla councils may impose include the following:

- education tax;
- health tax;
- fees for educational and health facilities;
- land revenue;
- rent on land, buildings, equipment, machinery and vehicles;
- toll on roads, bridges and ferries;
- licence and permit fees;

Table 8: Abbottabad district local revenue generation, 2002-06 (million rupees)

Source	Year			
	2002-03	2003-04	2004-05	2005-06
Savings certificates	118.10			
Local rates	1.15	1.12		
Rent on property	2.12			
Income from rest houses	0.21	0.05	0.07	0.05
Income from investment		1.58		
Export tax share (10%)	0.74	0.58	0.58	0.61
Bank profit	1.25			
Transfer fees	1.85			
Octroi share (10%)	1.11	1.67		
Health	0.60	1.10	1.01*	0.86*
Education	0.60	0.94		
Commerce and trade	1.95	1.38	1.56	1.51
Tax on mutation	0.15	0.35	0.83	1.17
Miscellaneous	0.52		0.11	
Total	130.35	8.77	3.17	3.13

* Includes education

Source: District Government Abbottabad 2007 (unpublished).

Table 9: Provincial funds for Abbottabad district, 2007-10 (million rupees)

Year	Salary	Non-salary (other)	Non-salary (electricity)	Development funds	Zilla tax
2007-08	1,334.31	128.66	24.77	48.49	8.34
2008-09	1,467.74	113.26	40.00	32.47	9.17
2009-10	1,653.28	124.00	53.00	48.01	10.09

Source: GoNWFP 2009b.

- penalties and fines for offences listed in the LGO; and
- fees for specific services.

The zilla council may also collect any other taxes authorised by the provincial government, and may levy collection charges for the recovery of taxes on behalf of the provincial government, or tehsil and union administrations.

Tehsil councils may impose a number of fees including:

- local taxes on services;
- fees for specific services;
- charges for development, betterment, improvement and maintenance of public

Table 10: Development funds released through other sources, 2002-07 (rupees rupees)

Source of funding	Amount
Tameer-e-Sarhad Programme	179.73
Khushhal Pakistan Programme-I	49.15
Khushhal Pakistan Programme-II	25.00
Chief minister (discretionary)	4.79
Total	258.67

Source: District Government Abbottabad 2007 (unpublished).

- utilities including lighting, drainage, conservancy and water supply;
- fees for the approval of building plans;
- fees for licences and permits;

- penalties and fines for offences listed in the LGO;
- tax on the transfer of immovable property;
- property tax;
- market fees, and fees on the sale of animals in cattle markets;
- rent on land, buildings, equipment, machinery and vehicles;
- taxes on vehicles other than motor vehicles; and
- collection charges for the recovery of taxes on behalf of the provincial government, district government or union administration.

The charges that union administrations may levy include the following:

- charges for specific services;
- charge for the execution or maintenance of public utilities such as lighting, drainage, conservancy and water supply;
- rent on land, buildings, equipment, machinery and vehicles;
- fees for the licensing of professions and trades; and
- collection charges for the recovery of taxes on behalf of the provincial

Table 11: Abbottabad projected budget, 2005-08 (million rupees)

Item	Year		
	2005-06	2006-07	2007-08
Non-salary	70.64	75.06	81.67
Development	38.84	38.84	38.84
Octroi	18.36	19.45	20.59
Zilla tax	6.62	6.95	7.30
Total	134.46	140.30	148.40

Source: GoNWFP 2006.

Table 13: District Abbottabad budget estimates 2006-07 (million rupees)

Source	Budget estimates 2005-06		Revised estimates 2005-06	Budget estimates 2006-07
District ADP				
District share (70%)	27.191		27.191	27.191
Tehsil share (30%)	11.653			
ADP (total)	38.844			
Other allocations for the district				
PSDP	BF	2.099	7.099	7.099
	New	5.000		0
Union council programme	BF	13.596	28.290	11.005
	New	14.694		19.694
Citizen community boards	BF	3.867	10.664	7.034
	New	6.797		6.797
Sports	BF	0.400	0.900	0.700
	New	0.500		0.500
Civil defence	BF	0.050	0.25	0.250
	New	0.200		0.200
Total	BF	20.012	47.203	26.088
	New	27.191		27.191

Source: District Government Abbottabad, 2007a.

government, district government or tehsil administration.

In practice, funds generated locally have so far been negligible. In 2005-06, for example, the Abbottabad district administration was able to raise just a little over 3 million rupees through locally imposed taxes and fees (Table 8). Overall, receipts are meagre, and have been decreasing. The tax base in the district is small and existing taxpayers are highly resistant to new levies. As a result, the district administration continues to rely heavily on federal and provincial grants and transfers.

Provincial transfers to the district are shown in Table 9. These are the only heads listed in the budget statement and the allocation for individual sectors is not shown. It is nevertheless possible to observe general trends. For example, establishment costs (salaries and overheads) have increased faster than provincial government transfers to the local government, resulting in lower allocations for development activities. In fact, more than 91% of the district budget is designated for staff salaries, while only 2.2% is allocated for development purposes. It should also be kept in mind that the

Table 12: Disbursement in Abbottabad (million rupees)

Demand	Budget estimate 2005-06	Revised estimate 2005-06	Budget estimate 2006-07
Salary + allowances + non-salary of zilla council	7.47	7.42	9.58
Non-salary (provincial government)*	77.51	77.51	9.32
Promotion of birth registration	1.00	1.00	
Total	85.98	85.93	18.90

* All district officials are NWFP government employees and their salaries are paid from a provincial allocation.

Source: District Government Abbottabad, 2007b.

Table 14: Performance-based budget (non-salary) allocation for Abbottabad, 2006-07

Unit Type	Number of Pilot units	Operational budget 2006-07
Education (A)		
Primary schools boys	20	600,000
Primary schools girls	20	600,000
Middle schools boys	10	600,000
Middle schools girls	10	600,000
High schools boys	05	750,000
High schools girls	05	750,000
Total	70	3,900,000
Health (B)		
Basic health units	9	3,325,000
Civil dispensaries	5	1,000,000
Mother and child health centre	1	200,000
Total	15	4,525,000
Agriculture (C)		
Extension circles	5	1,500,000
Livestock and dairy development	4	1,200,000
Total	9	2,700,000
Total district Abbottabad (A+B+C)	94	11,125,000

Source: GoNWFP, 2007.

district administration must share its allocations with tehsil administrations. Under current funding arrangements, therefore, it is next to impossible for the district to undertake development projects through PFC allocations.

The district receives funds earmarked for development through other sources. According to unpublished data provided by the Abbottabad district government, ADP allocations for the district stood at 47.20 million rupees in 2005-06 and 53.30 million in 2006-07. Funds released through other sources

are shown in Table 10. It is worth noting that the zilla nazim and zilla council have no say in development projects sponsored through discretionary funds at the disposal of the chief minister and elected representatives.

Expenditure and budgets

The projected district budget for three years from 2005-06 to 2007-08 shows that the major share of the budget is designated for the non-salary component (Table 11). The development budget remains constant at 38.84 million during the three years but actual development expenditure

Table 15: District contribution to CCBs, 2003-07 (million rupees)

Year	Amount
2003-04	9.74
2004-05	6.82
2005-06	6.80
2006-07	6.80
Total	30.16

Source: District Government Abbottabad 2007 (unpublished).

has fallen over this period, from 29% of the total budget in 2005-06, to 28% in 2006-07 and 26% in 2007-08. Total disbursements in the district come under three major heads, as shown in Table 12.

Of the annual ADP allocation for the district, the tehsil's share of 30% is transferred directly to the tehsil administration while the district retains 70%. ADP budgets and other allocations for the years 2005-06 and 2006-07 are shown in Table 13.

Performance-based budgeting was introduced in Abbottabad in 2006 and output for the early years has been encouraging. Performance-based non-salary budget allocations for the year 2006-07 are shown in Table 14.

The LGO provides for the participation of citizens in neighbourhood-level development activities through non-elected CCBs that raise funds on their own and may also receive contributions from the local government. Funds earmarked for CCBs between 2003 and 2007 are shown in Table 15.

EFR OPTIONS FOR ABBOTTABAD

Various opportunities exist for the introduction of EFR measures in Abbottabad. A model for the district is shown in Figure 7, identifying a number of environment-related revenue sources and showing how these can be deployed for conservation and pro-poor activities. The options proposed in this chapter are intended to serve as first steps towards systematic long-term reform in a wider range of sectors.

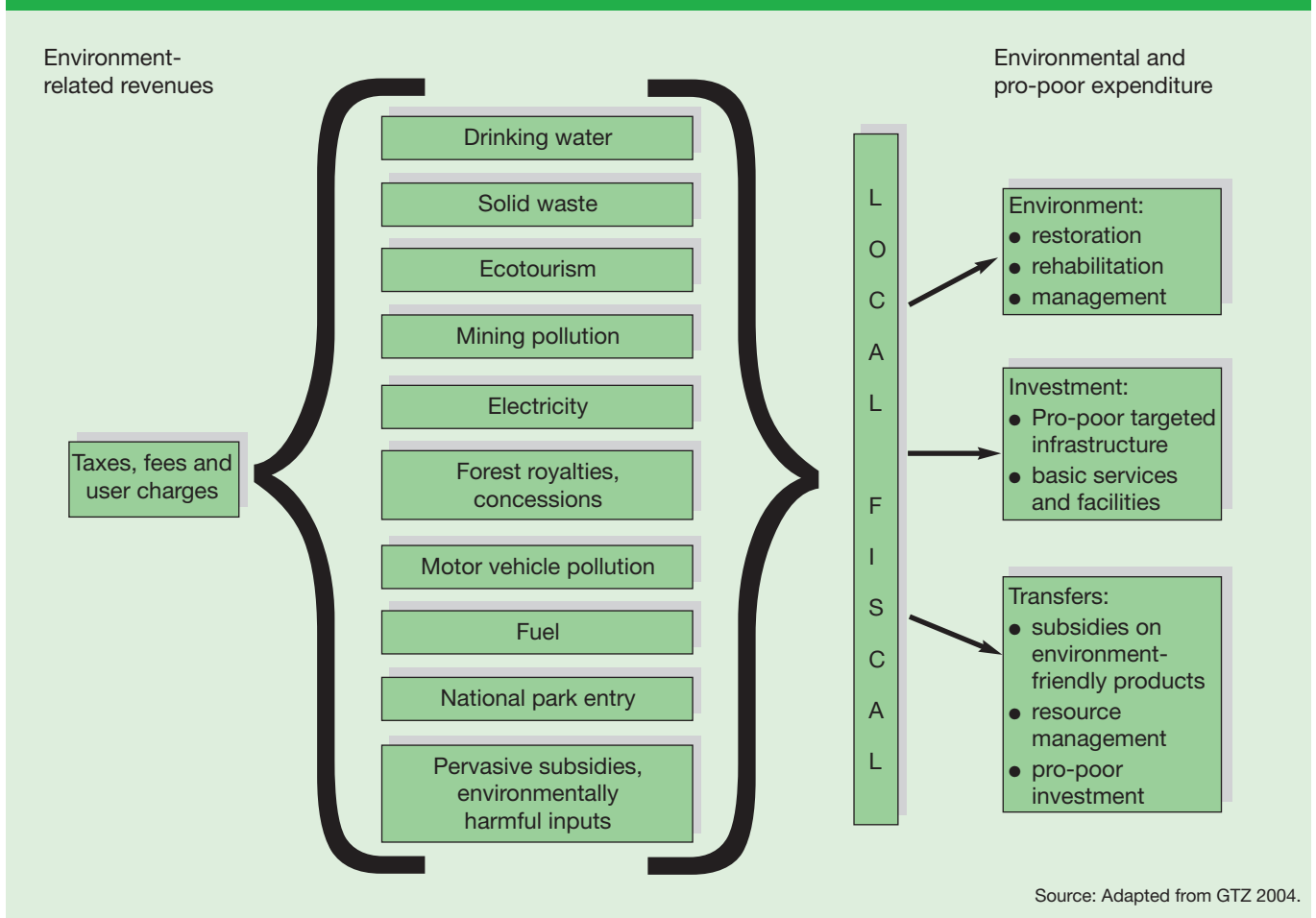
Drinking water

Currently, 88% of Abbottabad's urban population and 62% of rural residents have access to some form of water supply, primarily from public stand posts (GoP 2006b). But only 33% of households have access to drinking water inside the home, while the remaining 67% rely on an outdoor source. Indoor connections are more widely available in urban areas (80%),

with a large portion of this water supplied through pipelines (73%), but 76% of rural households depend on an outdoor source of water (IUCN 2004b). Clearly, much remains to be done.

Bottlenecks are created in the management of water utilities as a result of revenue shortfalls, especially because responsibilities for water supply have been devolved to lower

Figure 7: EFR model for Abbottabad



tiers of government without the devolution of fiscal powers. In Abbottabad, the local government budget for municipal services is also constrained by the very low fees paid by households for water supply. Current water tariffs in the district do not reflect the economic cost of providing drinking water. Nor are the net social benefits and costs for other types of uses covered in the rates for industrial and commercial users.

Recommendations for initiating EFR in the drinking water sector are as follows:

- Proper pricing of water to reflect the cost of water supply services.
- User charges for community-managed drinking water systems.
- Subsidies or other forms of support and new connections for poor households.
- Investment of a portion of earnings to improve the quality of water-related ecosystem services.
- Improved governance of water resources through the development of institutional mechanisms.
- Reform of fiscal policy to incorporate water-sector reform, with local governments given the authority to manage supply systems locally.

Solid waste

The system of solid waste disposal in Abbottabad district is inefficient and ineffective. Garbage collection services are not available in the countryside, while in urban areas rubbish accumulates on roads and streets, in vacant plots, and on hillsides. Even with collection services operating at full capacity, an estimated 40% of the waste generated in urban areas remains uncollected each day (IUCN 2004b).

Municipal authorities are struggling to cope, and face a number of challenges. Foremost among these is the chronic shortage of funds to hire staff and purchase equipment. Some issues arise

from the unique location and topography of the district, while others are the result of social change, with a rapidly growing population and changing consumption patterns. Institutional and administrative loopholes exist as well, with responsibility for solid waste management falling upon municipal agencies in some areas and cantonment boards in others, and jurisdiction not clearly defined.

Recommendations for initiating EFR in the solid waste sector are as follows:

- User fees to generate funds and pollution taxes to serve as a disincentive for illegal and unsafe practices.
- Reform of fiscal arrangements to ensure that a portion of the revenues generated is retained and used to improve service delivery.
- Innovative solutions to improve waste collection and disposal practices.
- Installation of a compost plant, introduction of garbage sorting at the collection stage and the promotion of recycling.
- Repair and refurbishment of existing waste water treatment facilities.
- Private sector involvement in waste collection, including mainstreaming of rubbish dealers and scavengers.
- Improved supervision and proper coordination between various municipal authorities and agencies.
- Devolution of fiscal authority, allowing decisions to be taken by those best able to judge local needs and priorities.
- Awareness raising among communities, and training for municipal workers and local officials.

Mining

The Hazara region, in which Abbottabad is located, is a major mining area in the province. Quarrying and mining are carried out in 108

villages, covering 4.8% of the total land area of the district. Some 20 different minerals are extracted. All mines are located at a distance of less than 2 km from a water body, with the result that mine residues pollute drinking water sources. About 18% of mines are located in landslide zones, posing a risk not only to the environment but also to the safety of local communities.

Both underground and open-pit methods are employed, and the techniques in use are crude and indiscriminate. Miners are poorly paid and work in dangerous and unhealthy conditions. Modern safety protocols, both for labour and the environment, are not followed. Oversight is practically non-existent and environmental impact assessments are rarely conducted prior to commencing operations. As a result, mining activities pose a serious threat to the health and safety of workers, to communities residing in the vicinity of mines, and to the ecology of surrounding areas.

Despite these drawbacks, the mining sector has the potential to generate funds that can be used to address poverty-related issues in communities affected by the mining industry. Because of its obvious and extreme impact on the environment, it is also an industry that has considerable potential for EFR-related policy measures. Key recommendations include the following:

- Tax on natural resource extraction, reform and rationalisation of the tax structure, and introduction of a levy on resource extraction.
- Removal of anomalies, perverse incentives and covert subsidies.
- Environmental tax on polluters.
- Rules and regulations governing pollution charges for industry strictly enforced and amended where necessary.
- Tax exemptions and other financial incentives for the use of environment-friendly technology.

- Research and data on the mining sector.
- Robust oversight and proper implementation of the existing regulatory regime.

Energy

According to provincial data for the year 2007–08, there are 143,157 electricity connections in the district (GoNWFP 2009a). Distribution within Abbottabad town is handled by the Peshawar Electricity Supply Corporation, while areas that lie on the district's borders with neighbouring Murree and Mansehra are supplied electricity by those districts (IUCN 2004b). Some 1,300 villages in the district are also linked to the national grid (GoNWFP 2009a).

Generation of power using hydrology and fossil fuels has a high environmental cost, while subsidies on electricity force the government to incur a heavy financial burden. Fiscal reform in the energy sector can serve to

generate much-needed revenues which may be reinvested in environmental conservation. Recommendations for initiating EFR in this sector are as follows:

- Assessment of actual costs associated with power generation including environmental costs.
- Development of a pricing formula based on actual costs, and mechanisms to protect the poorest households from the impact of increased charges.
- Mechanism to redistribute revenues in the form of tax exemptions for pollution control, conservation and restoration of watersheds, and support for communities.
- Subsidies and tax exemptions for the use and generation of environment-friendly alternative energy.
- Repair and refurbishment of distribution infrastructure and electricity meters.

The federal government has taken steps to remove price controls on oil, compressed natural gas (CNG) and coal, and to lower subsidies on energy in general. Information on current subsidies for the energy sector in Abbottabad district is not available.

Motor vehicle pollution

Two major highways run through the district: the Karakoram highway, which starts at the Haripur–Abbottabad border, passes Abbottabad town and extends to the Mansehra border; and the Murree–Abbottabad road, which enters the district at the border village of Barrian and joins the Karakoram highway inside the Abbottabad cantonment. As a result of its location, Abbottabad town is particularly vulnerable to the effects of air pollution.

According to figures for 2007, there are 23,481 vehicles registered in Abbottabad (including cars, trucks and motorcycles) but just 9,263 on the roads (GoNWFP 2009a). But the actual

Consultative workshop on EFR options, Abbottabad. © IUCN Pakistan



number of vehicles passing through the district is significantly higher, with transit traffic from the Karakoram highway and, in the summers, from tourism. Heavy traffic on the Abbottabad–Mansehra road, which passes through the heart of Abbottabad town, adds to pollution as well as congestion, as does the presence of military vehicles, most of which use diesel (IUCN 2004b).

Studies have yet to be conducted to determine air quality. In the interim, a step in the right direction would be to introduce surcharges based on the ‘polluter pays’ principle. Another equally important measure would be to make cleaner fuels, such as CNG, cheaper and more widely available. Other recommendations for initiating EFR in this sector include:

- Tax on vehicles based on the type of vehicle and the pollution created.
- Strict enforcement of existing pollution control laws and emissions standards.
- Heavy penalties for polluting vehicles.
- Scientific assessment of the actual cost of vehicle-related air pollution.

Ecotourism

Of the 12 habitat types identified in the NWFP, three are found in Abbottabad (IUCN 2004b). 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.

With four mini-resorts spread over an area of 26 km², Ayubia is perhaps best known for the chair lift at Ghora Dhaka, which was a pioneering recreational facility at the time of its inception in 1967 and continues to attract visitors today. But a number of areas in and around the Ayubia National Park, and the Birangali, Chhatri and Phalkot reserve forests, could serve to attract

nature tourists, ornithologists, hikers and trekkers. With their natural beauty and breathtaking landscape, the ‘Galliyat’ (Dongagali and Nathiagali) and the Thandiani area are also ideally suited for ecotourism.

Ecotourism has the potential to create jobs and generate considerable income for the district, which can be reinvested in environmental conservation as well as pro-poor activities. The following measures are proposed to link ecotourism to EFR initiatives:

- Entrance fees for visitors to all parks and reserves, with higher fees for foreign visitors.
- Willingness to pay studies to assess the long-term demands of visitors to parks and reserves.
- Full authority for local governments to collect and utilise ecotourism-related revenues.
- Improvement of facilities and training for tourism service providers.
- Revised management plans to include the communities residing on the outskirts of parks and reserves, with provisions for community participation in management and a share in the income.

Forests

Forests cover an area of 39,395 ha, or a little over 20% of the district, accounting for 5.4% of the total forest resources of the NWFP (IUCN 2004b). The majority of Abbottabad’s forested area is today so severely denuded that only 29% of forests support a density greater than 50%. Meanwhile, the gap between use and regenerative capacity continues to widen.

Given the richness of forest resources, the alarming rate of the degradation, and the dependence of the poor on forest ecosystem services, this sector is well suited to the introduction of EFR measures. Fiscal reform will help maximise the benefits forest resources

have to offer and generate funds for the conservation of forest reserves.

Although responsibility for many other sectors has been devolved to the district level, forest management continues to lie within the jurisdiction of the provincial government. This is a situation that will need to be addressed through policy dialogue at the highest levels. As such, it is not yet possible to develop concrete proposals for fiscal reform in the sector. Recommendations to assess the feasibility of EFR in the forestry sector include:

- Assessment of the current status of the forestry sector, with particular focus on areas where reform is needed.
- Clearly defined policies for sustainable use of forest resources.
- Assessment of the economic value of the direct and indirect benefits of forests and forest resources.
- Policy changes to collect forest revenues and invest them locally.

Pervasive subsidies and environmentally harmful inputs

Subsidies may be used to achieve a range of objectives from encouraging investment and promoting production to reducing the prices of goods and introducing equity in certain sectors. But subsidies can also create expected results, or give rise to new concerns. For example, subsidies on fertiliser, fuels, timber production and other natural resources may increase use or extraction, with a negative effect on human well-being and the health of ecosystems. Such subsidies, known as ‘pervasive subsidies’, are a critical area of focus for EFR. Their elimination discourages the overexploitation of resources and frees up funds that can be channelled towards environment-friendly and pro-poor activities.

Another key objective of EFR interventions is to discourage environmentally harmful practices in

general. This can be achieved by eliminating pervasive subsidies and by introducing taxes and fees on processes and activities that are highly polluting or have other harmful effects on the environment. Such levies once again help to encourage better practices while generating additional resources for pro-poor projects and environmental conservation.

There is currently no information available on specific subsidies provided by the district and provincial governments to industries and commercial operations in Abbottabad. There are a number of subsidies on offer by the federal government, however, which apply to those doing business in Abbottabad. Their costs, in terms of the environmental damage caused, have not been systematically calculated.

Issues and constraints

Under the decentralisation reforms introduced through the LGOs of 2001, local governments enjoy a limited degree of autonomy in a specified number of areas. They have the authority to generate certain revenues locally, and to make decisions on spending priorities. But revenue generation at the district level is low and continues to decline, leaving local governments almost entirely dependent on fiscal transfers from the federal and provincial governments.

What is even more alarming is that according to estimates of budgetary trends in the post-devolution period, the federal government has maintained a

surplus of around 24% and provincial governments have experienced a deficit of roughly 24%, while local governments have been unable to fully utilise their allocations, with a surplus of 0.03%. Yet district governments across the country remain chronically short of funds even for basic operational expenses.

This seeming anomaly arises as a result of a number of factors. Key among them are capacity constraints at the local level, with district, tehsil and union administrations still uncertain of their roles and responsibilities, and local officials continuing to struggle with procedural requirements such as budget preparation.

Successful EFR relies on the full involvement of local governments and, as such, meaningful reform will be impossible until the following issues are given consideration:

- Limited capacity: Nearly a decade after the introduction of devolution, confusion still exists regarding rules and procedures, roles and responsibilities, reporting lines, and the financial and administrative powers of various tiers in the local government system.
- Jurisdictional uncertainties and conflict with other government entities: In Abbottabad, the district government's earlier attempt to impose a tax on petrol and CNG pumping stations was stymied by jurisdictional conflict with cantonment authorities.
- Limited fiscal autonomy: Although in theory local governments are empowered to impose various taxes

and fees, in practice this has proven to be difficult. In districts such as Abbottabad, the tax base is small and taxpayers are resistant to new levies. Collection difficulties also arise, particularly with respect to informal sectors and activities that are not documented.

- Low potential for improving tax efficiency: Governance and transparency are key concerns, and corruption is a major hindrance to tax collection. Monitoring and supervision are weak.
- Absence of reliable data: There is no comprehensive database or mapping system. This is the case for taxes and levies as well as expenditure. As a result, no records are available and there is no mechanism for follow-up or tracking to assess performance.
- Absence of coordination between local governments and various departments and public-sector organisations: Development projects at the district level are implemented on an ad hoc basis, without an overarching policy or vision, resulting in the duplication of effort in many cases and the complete neglect of certain critical sectors.
- Influence of the federal and provincial governments: The fiscal structure and the policy framework governing key sectors at the district level are directly influenced by higher tiers of government. The district relies heavily on higher tiers for development funding and it is these higher tiers that generally determine spending priorities.

RECOMMENDATIONS

Certain structural and systemic changes are essential for successful EFR implementation in Abbottabad. These underlie the process of fiscal reform and ensure that institutions and individuals involved in implementation are well equipped to perform their designated functions. Key among them are the following:

● Revenue collection

Establish proper mechanisms for revenue collection. The potential exists to increase revenues without increasing taxes. This involves introducing discipline in financial management; maintaining proper records and registers; increasing vigilance and monitoring; and ensuring good governance. A system of reward and punishment should be introduced in the tax collection machinery to tackle corruption and curb the negative influence of rent seekers and free riders.

Consider other methods to improve collection. Options include outsourcing user charge collection, reducing the interaction between taxpayers and collectors, and developing schemes for self-assessment along the lines of the income tax assessment system.

● Law and policy

Conduct a survey of the law and policy framework with respect to EFR. Identify gaps as well as opportunities, and lobby law makers to introduce revisions and amendments where required.

Ensure that national policy on poverty and environment-related matters is

properly implemented. A basic framework for EFR is already included in many federal policy statements. Pressure must be brought to bear on the federal government to honour its policy commitments.

Examine the implications of legal provisions for EFR implementation. It is not just the LGO about which uncertainty exists. There are a wide range of legal instruments related to various aspects of natural resources and environmental management that need to be carefully analysed. Some legislative instruments already contain EFR-related measures while others contain provisions that are detrimental to the broader objectives of environment- and poverty-related fiscal reform. Such instruments exist at the federal and provincial level. Local by-laws should also be examined.

● Fiscal mechanisms

Establish a separate fund in the local fiscal system. This will allow district governments to raise revenues from environmental sources and allocate funds in accordance with pro-poor, environment-friendly priorities and objectives. A separate fund is essential so that a separate expenditure plan can be prepared and monitored without the need to consider district revenues from other sources.

Revisit the issue of district-level sustainable development funds. The NEP and federal laws call for the establishment of 'sustainable

development funds' at various levels of governments. Such funds are yet to be established across the country. In some districts, funds were established but have not been operational. In such cases, these funds can be revived and linked to EFR implementation at the district level.

● Monitoring and evaluation

Introduce a results-based monitoring and evaluation system. Monitoring is essential to understand current and developing trends, and to help in effective planning. It will also create transparency in the local government fiscal system.

Conduct a comprehensive mapping exercise to develop databases of taxes and fees. The databases should include information on revenues, rates, consumers and collection costs. Records should be continually updated.

● Skills and support

Develop the skills of local government employees in matters related to financial planning and management, budgeting, and the requirements of the new system.

Ensure that resources and support are available. This includes not just funding but also technical assistance and training for local government staff.

Provide technical support on environment-related matters. This issue deserves separate consideration because local government officials

require assistance in understanding the role of ecosystems and environmental goods and services in EFR implementation. This will allow them to accurately identify potential environment-related revenue sources and devise effective ways to implement projects. There is a role here for non-government organisations and agencies involved in project oversight and implementation.

● **Collaboration**

Build collaborative links with higher tiers of government. Cooperation between the federal, provincial and district governments is critical to the success of EFR. Collaboration will ensure that all levels of government are on board, and will promote transparent decision making. It will allow district administrations to introduce environment-friendly, pro-poor measures without encountering resistance from higher tiers.

Ensure greater interaction between planning bodies and agencies. It is important that the federal Finance Commission, Ministry of Environment, Planning Commission, and other relevant bodies and ministries are included in EFR planning. This will allow district administrations to benefit from the knowledge and skills of federal entities, and will ensure that timely support is available when needed.

Lobby the federal and provincial governments for the devolution of fiscal power. Financial powers awarded to local governments under the LGOs of 2001 need to be fully realised and new areas of local autonomy should be considered. Developing collaborative links with higher tiers will allow local governments to lobby more effectively.

● **Awareness and education**

Educate stakeholders. Although the basic thinking that underpins EFR is

simple, it relies on a broad understanding not only of fiscal mechanisms but also of concepts such as sustainable development and the poverty-environment nexus. Local government officials need to be familiar with these ideas. Similarly, communities are likely to resist user charges and fees until they become aware of the benefits to be gained from such measures.

Raise awareness among policy makers and within higher tiers of government. Law makers and those responsible for the formulation of policy may be similarly unaware of the benefits of EFR. Since their support is critical, it is important that they understand the thinking behind EFR and the prerequisites for implementation.

Conduct further research. There are many aspects of EFR implementation that need to be explored in depth, and further research is required.

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ANNEX 1: PERFORMANCE OF KEY ECONOMIC INDICATORS, 1990–2006

Key economic indicators, 1990–2006

	Unit	1990-91	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (P)
I. Real sector								
Real GDP growth	%	3.9	2.0	3.1	4.7	7.5	8.6	6.6
Agriculture	%	6.1	-2.2	0.1	4.3	2.3	6.7	2.5
Large-scale manufacturing	%	1.5	11.0	3.5	7.2	18.1	15.6	10.7
Investment	% of GDP	17.4	17.2	16.8	16.9	16.6	18.1	20.0
National Savings	% of GDP	15.8	16.5	18.6	20.8	17.9	16.5	16.4
Inflation	%	3.6	4.4	3.5	3.1	4.6	9.3	7.9
Food inflation		2.2	3.6	2.5	2.9	6.0	12.5	6.9
Non-food inflation		4.7	5.1	4.3	3.2	3.6	7.1	8.6
Core inflation		3.5	4.2	3.5	2.5	3.7	7.0	7.1
II. Fiscal sector								
Revenue collection (CBR)	Billion Rs.	346.6	392.3	403.9	460.6	518.8	588.4	712.0
Fiscal deficit	% of GDP	5.4	4.3	4.3	3.7	2.4	3.3	3.4
Public debt	% of GDP	94.8	82.8	77.7	72.7	67.7	61.7	56.0
– of which foreign currency denominated	% of GDP	45.8	42.3	40.8	36.7	32.0	29.1	26.2
Debt servicing	% of Total Revenue	63.8	57.0	51.1	35.7	31.3	30.2	28.0
III. External sector								
Exports (f.o.b)	Billion \$	8.2	8.9	9.1	10.9	12.4	14.4	16.31
Imports (f.o.b)	Billion \$	9.6	10.2	9.4	11.3	13.6	18.8	24.6
Trade deficit	Billion \$	-1.4	-1.3	-0.3	-0.4	-1.2	-4.4	- 8.2
Remittances	Billion \$	1.0	1.1	2.4	4.2	3.9	4.2	4.6
Current account balance	% of GDP	-1.6	-0.7	1.9	3.8	1.3	-1.6	-4.4
Foreign direct investment	Million \$	470.0	322.4	484.7	798.0	949.6	1524	3521
External debt and forex								
liabilities	Billion \$	37.9	37.1	36.5	35.5	35.3	36.6	37.2
External debt and liabilities	% of Forex Earnings	297.2	259.5	236.8	181.2	164.7	134.3	120.6
Foreign exchange reserves	Billion \$	1.3	3.2	6.3	10.7	12.3	12.6	13.1
IV. Monetary and capital market								
Weighted average lending rate	%	14.0	13.7	13.1	7.58	5.05	8.2	9.9
Credit to private sector	Rs. Billion	18.0	48.6	53.0	168.0	325.0	437.8	352.3
Stock market (KSE Index)	1991=1000	1521	1366	1770	3403	5279	7450.1	9989.4
Market capitalisation	Rs. Billion	392	339	408	746	1357.5	2013.2	2766.4
	\$ Billion	6.7	5.8	6.8	12.8	23.4	33.7	45.9

P = Provisional

Source: GoP 2007b.

ANNEX 2: FEDERAL REVENUE, EXPENDITURE, FINANCING AND TAX COLLECTION, 2003–08

A. Federal government revenue receipts (million rupees)

Head	2003-04	2004-05	2005-06	2006-07 ^B	2006-07 ^R	2007-08 ^B
1. REVENUE RECEIPTS (II+III+IV)	760,983	875,306	1,022,704	1,082,810	1,214,043	1,368,139
I. Total Tax Revenue (II+III)	580,108	626,289	715,712	840,923	839,598	1,030,547
II. Taxes Revenues-CBR (i+ii)	510,000	590,000	704,000	828,500	839,598	1,030,547
(i) Direct Taxes	161,500	182,700	225,000	261,700	320,619	408,250
(a) Taxes on Income	154,638	175,400	215,500	257,800	305,000	388,000
(b) Wealth Tax	-	-	-	-	-	-
(c) Workers Welfare Tax	6,262	5,000	5,500	1,000	8,000	10,500
(d) Capital Value Tax	600	2,300	4,000	2,900	7,619	9,750
(ii) Indirect Taxes:	348,500	407,300	479,000	566,800	518,979	622,297
(a) Customs	86,600	113,900	136,000	157,100	134,000	154,000
(b) Central Excise	43,500	54,400	56,500	68,100	72,000	91,000
(c) Sales Tax	218,400	239,000	286,500	341,600	311,000	375,000
(d) Others					1,979	2,297
III. Tax Revenue (Other than CBR)	70,108	36,289	11,712	12,423	0	0
(a) Petroleum	46,400	10,872	-	-	-	-
(b) Natural Gas	14,226	14,733	-	-	-	-
(c) Other	9,482	10,684	11,712	12,423	0	0
IV. Non-Tax Revenue	180,875	249,017	306,992	241,887	374,445	337,592
(a) Property & Enterprises	101,361	136,593	119,937	115,187	118,724	144,462
(b) Civil Administration	45,312	73,963	95,809	53,575	143,694	86,262
(c) Miscellaneous	34,202	38,461	91,247	73,125	112,027	106,868
2. Less Transfers to Provinces	211,412	245,296	301,383	378,260	390,920	465,964
(i) Taxes on Income	54,510	61,829	75,964	100,568	118,981	155,006
(ii) Sales Tax	76,914	84,111	100,705	132,944	120,773	149,135
(iii) Excise Duty & Royalty on Natural Gas	14,651	17,743	22,389	26,012	25,254	27,136
(iv) Royalty on Crude Oil	3,883	5,476	8,830	9,154	7,935	8,388
(v) Surcharges on Gas	13,941	14,439	21,813	17,711	32,565	21,790
(vi) Custom Duties	30,851	40,577	48,450	61,937	52,830	62,178
(vii) Wealth Tax	-	-	-	-	-	-
(viii) Capital Value Tax	214	819	1,425	1,143	1,971	2,624
(ix) Federal Excise (Net of Gas)	13,997	17,460	18,064	24,486	26,039	34,194
(x) GST (Provincial)	2,450	2,842	3,743	4,305	4,572	5,513
(xi) GST (CE Mode)	-	-	-	-	-	-
REVENUE RECEIPTS (NET) (1-2)	549,571	630,010	721,321	704,550	823,123	902,175

R = Revised estimates

B = Budget estimates

Source: Annual Budget Statement Government of Pakistan.

B. Federal government expenditure (million rupees)

Head	2003-04	2004-05	2005-06	2006-07 ^B	2006-07 ^A	2007-08 ^B
I. REVENUE EXPENDITURE (A+B)	773,165	866,771	1,072,223	1,115,937	1,234,148	1,353,660
A. CURRENT EXPENDITURE:	714,019	784,680	918,789	879,779	1,033,532	1,056,349
a. General Public Service	448,430	468,974	563,673	504,288	63,4761	641,875
b. Defence Affairs and Services	180,537	216,258	241,062	250,182	252,631	275,000
c. Public Order and Safety Affairs	14,048	17,546	20,362	22,463	22,923	24,540
d. Economic Affairs	54,758	62,172	67,572	74,663	91,222	78,941
e. Environment Protection	132	136	147	167	177	182
f. Housing and Community Amenities	926	866	891	1,040	1,127	1,095
g. Health Services	2,809	3,280	4,361	4,728	4,760	5,240
h. Recreation, Culture and Religion	2,003	2,245	2,442	2,741	2,851	2,929
i. Education Affairs and Services	9,640	12,340	16,747	18,778	21,908	24,147
j. Social Protection	737	863	1,533	728	1,173	2,401
B. DEVELOPMENT EXPENDITURE	59,146	82,091	153,434	236,158	200,616	297,311
II. CAPITAL DISBURSEMENTS (A+B)	125,348	119,672	124,140	137,822	130,334	155,373
A. CURRENT EXPENDITURE:	64,964	52,739	38,519	24,602	31,932	32,117
(i) Economic Affairs	12	22	10	10	10	9
(ii) Public Service (1+2+3+4)	64,952	52,716	38,509	24,592	31,922	32,108
1. Repayment of Short Term Credit	17,759	1,466	21,809	11,227	12,813	2,566
2. Government Investment	40,775	44,021	8,566	4,387	9,802	19,382
3. Loans and Advances	6,418	7,229	8,134	8,978	9,307	10,160
4. Unallocable	-	-	-	-	-	-
B. DEVELOPMENT EXPENDITURE:	60,384	66,933	85,621	113,220	98,402	123,256
(i) Public Service	610	4,191	8,256	10,352	9,878	13,210
(ii) Economic Affairs	4,287	5,321	4,346	4,260	6,221	12,849
(iii) Transfers	55,487	57,420	73,020	98,609	82,303	97,196
(vi) Block allocation for late NIS	-	-	-	-	-	-
III. ESTIMATED OPERATIONAL SHORTFALL/ OTHER ADJUSTMENT INPSDP	-	14,563	-			
TOTAL EXPENDITURE (I+II)	898,513	1,001,006	1,196,364	1,253,758	1,364,482	1,509,032

R = Revised estimates

B = Budget estimates

* Included in General Public Service under current expenditure on revenue account

Note: The Federal budget for FY-05 has been prepared according to new accounting model that is different from the previous system. The exact correspondence between historical data available on old classification system and estimates developed on the new system is not technically feasible.

Source: Annual Budget Statement, Government of Pakistan.

C. Financing of federal government expenditure (million rupees)

Head	2003-04	2004-05	2005-06	2006-07 ^B	2006-07 ^R	2007-08 ^B
I. REVENUE RECEIPTS (NET)	549,571	630,010	721,321	704,550	823,123	902,175
II. INTERNAL RESOURCES (i+ii)	104,752	76,405	57,266	40,988	112,401	90,639
(i) Capital Receipts:	116,127	79,838	31,731	23,391	63,887	43,362
(a) Public Debt (Net)	84,403	16,767	-3,250	-10,936	-2,334	2,467
(b) Recoveries of Loans & Advances	31,724	60,071	32,907	34,327	66,221	40,895
(c) Recoveries of investment from KESC	-	3,000	2,074	-	-	-
(ii) Public Account:	-11,375	-3,433	25,535	17,597	48,514	47,277
(a) Deferred Liabilities	-15,745	-14,088	10,449	15,221	46,402	44,102
(b) Deposits & Reserves	4,370	10,655	15,086	2,375	2,112	3,175
III. EXTERNAL RESOURCES (1 + 2+3+4)	144,820	197,640	233,914	239,309	276,570	258,534
1. Loans 110,337	179,078	189,116	213,388	250,447	229,686	
Project Aid:	38,119	40,845	56,653	76,386	57,942	66,604
Commodity Aid:	31,366	78,583	60,583	76,502	133,176	125,792
Food Aid :	-	-	-	-	-	-
Other Aid:	12,002	59,650	71,880	60,500	59,329	37,290
IDB	6,232	17,895	17,970	30,250	13,691	6,215
Commercial	5,770	5,965	5,990	0	-	-
Global Bonds	-	-	47,920	30,250	45,638	31,075
Sukuk Bonds	-	35,790	-	-	-	-
Eurobonds	28,850	-	-	-	-	-
2. Grants	34,483	18,562	44,798	25,921	26,123	28,848
Project Aid:	4,814	5,695	6,654	5,780	6,955	3,472
Commodity Aid:	11,667	12,867	38,144	19,536	18,438	25,376
Food Aid :	577	-	0	605	730	0
Saudi Oil Facility	17,425	-	-	-	-	-
Refund of F-16	-	-	-	-	-	-
3. Debt Rescheduling	-	-	-	-	-	-
4. Non-Plan Resources	-	-	-	-	-	-
IV. TOTAL RECEIPTS (I+II+III)	799,143	904,056	1,012,501	984,847	1,212,094	1,251,348
V. Change in Provincial Cash Balance	14,331	6,167	27,024	53,817	22,151	51,751
VI. Privatization Proceeds	11,000	10,000	90,000	75,000	75,000	75,000
VII. Credit From Banking System	74,038	80,783	66,840	140,093	55,240	130,938
TOTAL RESOURCES (IV+V+VI+VII)	898,513	1,001,006	1,196,364	1,253,758	1,364,485	1,509,037

R = Revised estimates

B = Budget estimates

Source: Annual Budget Statement, Government of Pakistan.

D. Central Board of Revenue tax collection (billion rupees)

Period		Direct Taxes	Indirect Taxes Sales	Excise	Customs	Total	Total Tax Collection
2003-04		165.1	219.2	45.6	91.0	355.8	520.8
2004-05		183.4	238.5	53.1	115.4	407.0	590.4
2005-06		225.0	294.8	55.3	138.4	488.5	713.4
2006-07		333.7	309.4	71.8	132.3	513.5	847.2
2007-08		383.3	375.8	91.4	150.7	617.9	1001.2
2007	Jun.	61.0	36.2	9.8	18.0	63.9	125.0
	Jul.	14.1	26.2	1.9	8.7	36.8	50.9
	Aug.	15.0	28.8	6.6	9.7	45.1	60.1
	Sep.	48.4	27.7	7.6	10.5	45.8	94.2
	Oct.	17.2	31.5	7.6	10.2	49.3	66.4
	Nov.	18.7	29.7	8.1	11.8	49.6	68.4
	Dec.	51.2	25.3	7.8	10.7	43.8	95.0
2008	Jan.	27.1	29.9	6.8	13.8	50.5	77.5
	Feb.	25.0	28.8	7.7	11.2	47.7	72.8
	Mar.	41.0	30.6	7.8	15.3	53.6	94.5
	Apr.	26.9	35.0	8.8	12.9	56.7	83.7
	May.	28.2	39.4	10.0	14.9	64.4	92.6
	Jun.	70.5	42.7	10.8	21.0	74.5	145.0

Source: Central Board of Revenue.

ANNEX 3: PROVINCIAL REVENUE RECEIPTS, 1997–2007

A. Revenue receipts of the provincial government, 1997-98 to 2001-02 (million rupees)

Items	1997-98	1998-99	NWFP 1999-00	2000-01	2001-02
Total expenditure met from revenue	27575.1	33561.3	32472.4	33643.29	37639.1
A. Principal heads of revenue	15254.1	15968.8	18206.1	20599.61	21407.3
1. Direct taxes	5261.1	5612.2	5530.0	6436.74	7180.5
a. Corporation tax	--	--	--	--	--
b. Taxes on income other than corporation tax	4612.7	5112.5	5054.4	6001.91	6777.4
c. Land revenue	317.7	150.0	180.0	200.00	200.0
d. Other heads	330.7	349.7	295.6	234.83	203.1
2. Indirect taxes	9993.0	10356.6	12676.1	14162.87	14226.8
a. Central excise duty	2862.6	2819.7	2580.6	2308.59	2052.3
b. Sales tax	2608.9	3504.3	5788.0	7666.38	--
c. Provincial excise	12.5	16.0	18.0	20.00	22.0
d. Stamp duties	200.0	180.0	200.0	200.00	200.0
e. Customs	3796.7	2956.9	3126.0	3116.06	2435.9
f. Other heads	512.3	879.7	963.5	851.84	662.5
g. General sales tax	--	--	--	--	8854.1
B. Other heads of revenue	11041.7	16403.7	12395.3	12035.87	11862.2
1. General revenue receipts	7453.5	7917.7	7909.0	7767.41	7686.0
a. Property & enterprise (Interest & dividends)	6094.9	6125.0	6102.0	6110.06	6113.5
b. Civil administration	1358.6	1792.7	1807.0	1657.35	1572.5
i. General administration	83.6	56.2	95.0	95.50	109.0
ii. Law & order	133.5	144.8	185.0	195.75	175.0
iii. Community services	205.0	235.0	235.0	210.70	175.0
iv. Social services	316.4	625.5	528.0	519.26	369.3
v. Economic services	620.1	731.2	764.0	636.14	744.2
2. Grants (Fed. Govt.)	3327.6	3675.0	4057.3	3827.60	3915.4
3. Miscellaneous	260.6	4811.0	429.0	440.86	260.8
C. Development revenue receipts	1279.3	1188.8	1871.0	1007.81	4369.6
1. Foreign grants	1030.3	724.4	902.0	312.81	398.5
2. Other federal grants	249.0	464.4	969.0	695.00	3971.1

Source: Annual Budget Statement, Finance Division, Government of Pakistan.

B. Revenue receipts of the provincial government, 2002-03 to 2006-07 (million rupees)

Items	2002-03	2003-04	NWFP 2004-05	2005-06	2006-07
Total expenditure met from revenue	48137.2	41083.6	54711.1	69872.3	70147.4
A. Principal heads of revenue	34912.3	27679.3	32554.7	38149.0	45336.9
1. Direct taxes	7237.3	8032.9	9196.9	11257.6	14722.5
a. Corporation tax	--	--	--	--	--
b. Taxes on income other than corporation tax	6761.5	7533.3	8544.7	10548.2	13973.5
c. Land revenue	220.0	250.0	300.0	330.0	380.0
d. Other heads	255.8	249.6	352.2	379.4	369.0
2. Indirect taxes	27675.0	19646.4	23357.8	26891.4	30650.4
a. Central excise duty	2077.7	1934.4	2914.1	2517.1	3405.6
b. Sales tax	--	--	12016.8	16124.4	16890.9
c. Provincial excise	25.0	20.4	25.0	30.0	45.0
d. Stamp duties	210.0	220.0	280.0	300.0	350.0
e. Customs	3426.7	4263.6	5607.7	6695.8	8559.6
f. Other heads	10993.5	895.2	1103.0	1224.1	1399.3
g. General sales tax	10942.1	12312.8	1411.2		
B. Other heads of revenue	12026.7	11897.6	12710.7	27314.0	22169.2
1. General revenue receipts	7596.7	7654.5	6793.2	6049.6	8971.0
a. Property & enterprise (Interest & dividends)	6125.0	6114.0	6084.0	6092.0	8100.0
b. Civil administration	1471.7	1540.5	709.2	757.6	871.0
i. General administration	35.3	37.6	45.0	49.0	53.0
ii. Law & order	195.7	207.8	231.0	248.7	292.0
iii. Community services	160.0	193.4	184.7	185.6	225.0
iv. Social services	242.2	226.1	244.0	259.3	286.0
v. Economic services	838.5	875.6	4.5	15.0	15.0
2. Grants (Fed. Govt.)	4119.3	3898.0	4500.0	17473.2	9712.5
3. Miscellaneous	310.7	345.1	1417.5	2991.2	3485.7
C. Development revenue receipts	1198.2	1506.7	9445.7	4409.3	2641.3
1. Foreign grants	415.2	659.9	7128.1	879.1	935.9
2. Other federal grants	783.0	846.8	2317.6	3530.2	1705.4

Source: Annual Budget Statement, Finance Division, Government of Pakistan.

ANNEX 4: CONSOLIDATED FEDERAL AND PROVINCIAL REVENUE AND EXPENDITURE, 2000-07

Consolidated federal and provincial government revenues and expenditure (in billion rupees)

	2000-01	2001-02	2002-03	2003-04	Prov. Act. 2004-05	Budgeted Estimates 2006-07
A. Revenue	552.9	624.1	720.8	805.8	900.0	990.3
a) Tax revenue	441.5	478.1	555.8	617.9	659.4	768.8
i) Federal	422.5	459.3	534.0	583.4	624.7	726.1
CBR revenue	392.1	403.9	461.6	521.9	588.4	690.0
Direct tax	124.6	142.6	152.0	164.5	176.9	224.6
Federal excise duty	49.0	46.9	44.0	45.8	58.7	62.3
Sales tax	153.5	166.3	195.1	220.6	235.5	294.0
Customs duties	65.0	48.1	68.8	90.9	117.2	121.2
Petroleum surcharges	17.9	36.6	46.9	44.6	10.6	16.6
Gas surcharges	12.3	17.7	21.3	16.8	16.2	32.5
Other	0.2	1.1	4.2	0.1	2.1	36.5
ii) Provincial	19.0	18.8	21.8	34.1	34.5	42.7
b) Non tax revenue	111.4	146.0	165.0	187.9	248.4	221.5
Federal	91.5	124.7	139.6	162.1	225.8	175.6
Provincial	19.9	21.3	25.4	25.8	22.5	45.9
B. Expenditure	732.8	866.5	898.2	904.4	1,195.5	1275.4
a) Current expenditure	660.6	740.5	791.7	763.1	942.7	1019.5
i) Federal	660.6	740.5	579.9	582.4	688.6	719.8
Interest payments	234.5	245.2	207.2	196.3	210.2	236.0
Domestic	183.5	184.6	166.9	154.8	170.5	190.2
Foreign	51.0	60.6	40.2	41.4	39.7	45.8
Defence	104.7	149.0	159.9	180.4	211.7	223.5
General						
Administration	70.7	56.3	67.4	75.5	81.4	103.1
Pensions for defence and civil government	30.9	27.2	40.6	32.5	32.3	46.5
Subsidies	19.9	23.7	51.5	37.0	57.8	86.3
Grants	18.1	22.8	23.5	34.3	94.7	38.4
Other*	181.8	216.3	57.9	0.6	0.5	0.0
ii) Provincial			191.9	180.7	254.1	299.7
b) Development expenditure and net lending	72.2	126.0	106.5	177.3	252.8	265.9
Public Sector Development Programme	89.8	126.2	129.2	161.0	228.0	272.0
Net lending	(17.6)	(0.2)	(22.7)	16.3	24.8	6.1
C. Budget balance	(179.9)	(242.4)	(180.6)	(134.5)	(217.0)	-(285.0)

*Mainly includes provincial expenditure.

Source: GoP 2006a.

ANNEX 5: PRSP BUDGETARY EXPENDITURE, 2007–08

A. PRSP budgetary expenditure, 2007-08 (in million rupees)

	2007-08 (provisional)						FY 2006-07					
	Federal	Punjab	Sindh*	NWFP	Balochistan	Total	Federal	Punjab	Sindh	NWFP	Balochistan	Total
Roads, highways, bridges	2,396	49,659	20,061	5,347	7,362	84,825	2,571	28,197	17,262	4,471	7,502	60,003
Current	2,396	3,210	1,071	1,374	508	8,559	2,333	2,383	1,193	779	120	6,808
Development	0	46,449	18,990	3,973	6,854	76,266	238	25,814	16,069	3,692	7,382	53,195
Water supply, sanitation	198	7,597	5,290	2,290	4,442	19,817	376	6,798	5,657	1,065	2,723	16,619
Current	198	1,956	736	1,090	1,200	5,180	247	2,285	450	997	1,099	5,078
Development	0	5,641	4,554	1,200	3,242	14,637	129	4,513	5,207	68	1,624	11,541
Education	40,756	73,431	37,951	23,012	7,496	182,646	40,840	71,353	23,221	19,447	7,223	162,084
Current	21,994	69,364	31,071	20,836	7,072	150,337	22,657	63,140	20,051	17,854	6,611	130,313
Development	18,762	4,067	6,880	2,176	424	32,309	18,183	8,213	3,170	1,593	612	31,771
Primary education	2,374	34,973	1,054	9,909	2,452	50,762	2,139	31,772	7,796	8,606	2,420	52,733
Current	2,374	33,854	31	8,923	2,452	47,634	2,121	30,501	6,500	8,045	2,420	49,587
Development	0	1,119	1,023	986	0	3,128	18	1,271	1,296	561	0	3,146
Secondary education	3,397	17,413	791	9,476	2,153	33,230	2,951	14,825	6,252	8,434	1,949	34,411
Current	3,280	16,647	104	8,881	2,153	31,065	2,751	14,190	5,475	8,170	1,949	32,535
Development	117	766	687	595	0	2,165	200	635	777	264	0	1,876
General universities, colleges, institutes	25,266	6,938	3,412	1,448	648	37,712	26,469	5,592	2,641	1,004	471	36,177
Current	8,960	5,385	2,315	1,326	648	18,634	11,025	4,926	2,240	592	471	19,254
Development	16,306	1,553	1,097	122	0	19,078	15,444	666	401	412	0	16,923
Professional/ technical universities, colleges, institutes	4,047	1,268	1,359	1,728	368	8,770	3,699	1,048	1,258	916	444	7,365
Current	3,960	1,209	1,108	1,303	368	7,948	3,613	946	983	896	440	6,878
Development	87	59	251	425	0	822	86	102	275	20	4	487
Teacher, vocational training	89	0	188	0	153	430	63	2,566	169	243	145	3,186
Current	42	0	173	0	153	368	38	2,566	152	32	145	2,933
Development	47	0	15	0	0	62	25	0	17	211	0	253
Others	5,583	12,839	2,332	451	1,722	22,927	5,519	15,550	5,105	244	1,794	28,212
Current	3,378	12,269	1,844	403	1,298	19,192	3,109	10,011	4,701	119	1,186	19,126
Development	2,205	570	488	48	424	3,735	2,410	5,539	404	125	608	9,086
Health	16,479	24,784	11,559	5,855	2,450	61,127	14,054	22,116	8,710	5,979	2,307	53,166
Current	5,756	20,828	10,123	5,033	2,231	43,971	5,948	18,683	7,254	5,219	2,164	39,268
Development	10,723	3,956	1,436	822	219	17,156	8,106	3,433	1,456	760	143	13,898

	2007-08 (provisional)						FY 2006-07					
	Federal	Punjab	Sindh*	NWFP	Balochistan	Total	Federal	Punjab	Sindh	NWFP	Balochistan	Total
General hospitals, clinics	6,542	21,179	4,951	5,365	1,109	39,146	6,152	18,998	7,249	3,846	962	37,207
Current	4,422	17,730	4,447	4,608	1,109	32,316	4,224	15,802	6,012	3,783	962	30,783
Development	2,120	3,449	504	757	0	6,830	1,928	3,196	1,237	63	0	6,424
Maternal and child health	3	128	106	16	8	261	3	80	243	1,072	1	1,399
Current	3	90	106	16	8	223	3	79	217	1,071	1	1,371
Development	0	38	0	0	0	38	0	1	26	1	0	28
Health facilities, preventive measures	9,040	224	272	135	368	10,039	7,097	150	227	862	358	8,694
Current	681	110	120	70	156	1,137	1,137	102	122	174	215	1,750
Development	8,359	114	152	65	212	8,902	5,960	48	105	688	143	6,944
Others	894	3,253	402	339	965	5,853	802	2,888	991	199	986	5,866
Current	650	2,898	399	339	958	5,244	584	2,700	903	191	986	5,364
Development	244	355	3	0	7	609	218	188	88	8	0	502
Population planning	7,073	4,676	166	1,062	345	13,322	3,990	1,429	921	355	307	7,002
Current	588	1,347	107	47	69	2,158	323	30	0	42	305	700
Development	6,485	3,329	59	1,015	276	11,164	3,667	1,399	921	313	2	6,302
Social security, social welfare	5,249	2,573	10,610	247	263	18,942	718	1,013	1,236	1,324	222	4,513
Current	5,001	1,860	883	197	187	8,128	491	689	776	629	153	2,738
Development	248	713	9,727	50	76	10,814	227	324	460	695	69	1,775
Natural calamities, other disasters	3,241	3,118	640	363	366	7,728	2,716	1,055	201	991	45	5,008
Irrigation	49,214	11,664	13,540	3,869	5,206	83,493	45,417	11,706	11,040	2,947	3,661	74,771
Current	11	5,148	4,373	1,060	2,846	13,438	336	4,922	3,253	973	2,612	12,096
Development	49,203	6,516	9,167	2,809	2,360	70,055	45,081	6,784	7,787	1,974	1,049	62,675
Land reclamation	0	108	3,022	0	0	3,130	0	101	2,247	0	0	2,348
Rural development	1,808	9,933	153	6,184	5,256	23,334	1,431	9,495	156	6,320	4,773	22,175
Current	80	259	140	1,106	386	1,971	369	158	127	1,673	476	2,803
Development	1,728	9,674	13	5,078	4,870	21,363	1,062	9,337	29	4,647	4,297	19,372
Law and order**	2,364	65	0	0	0	2,429	1,055	1	0	6	1,026	2,088
Low-cost housing	0	597	0	0	0	597	0	165	0	134	0	299
Justice admin	2,931	2,274	1,396	701	518	7,820	1,231	1,678	1,045	602	525	5,081
Food subsidies	51,287	179	1,406	2,000	0	54,872	4,422	4	529	500	0	5,455
Food Support Programme	253	2,261	992	663	201	4,370	120	1,793	759	746	131	3,549
Khushhal Pakistan Fund ~						1,420						20
Village electrification^^	2,748					2,748	2,499					2,499
Total	185,997	192,919	106,786	51,593	33,905	572,620	121,440	156,904	72,984	44,887	30,445	426,680

* Sindh Account IV (FY 2007-08) education and health figures not available

** Based on actual expenditure

~ Expenditure for 2006-07 relates to Tawana Pakistan Programme

^^ Federal releases to Ministry of Water and Power, and WAPDA

Source: GoP 2009c.

B. Projected PRSP budgetary expenditure, 2002-08 (in million rupees)

PRSP Expenditure	Baseline (actual)		Projections (based upon FY 2001-02 actual expenditure)											
	FY 2001-2002		FY 2002-03 (actual)		FY 2003-04 (budget)		FY 2004-05 (projected)		FY 2005-06 (projected)		FY 2006-07 (projected)		FY 2007-08 (projected)	
	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP
Development	37,636	1.00	44,316	1.10	64,000	1.45	85,000	1.74	108,000	2.00	138,200	2.30	166,700	2.50
Current	129,614	3.49	164,560	4.10	174,795	3.95	193,023	3.96	215,878	4.00	245,419	4.10	286,587	4.30
TOTAL	133,495	4.48	208,840	5.20	238,795	5.40	278,023	5.70	323,878	6.00	383,620	6.40	453,287	6.80
MARKET ACCESS AND COMMUNITY SERVICES														
Roads, highways, buildings	6,340	0.17	13,145	0.33	14,586	0.33	16,575	0.34	18,890	0.35	21,568	0.36	24,672	0.37
Water supply, sanitation	4,644	0.12	3,421	0.08	3,978	0.09	4,875	0.10	5,937	0.11	7,189	0.12	8,668	0.13
HUMAN DEVELOPMENT														
Education	66,290	1.78	78,613	1.96	88,842	2.01	102,375	2.10	116,036	2.15	135,049	2.25	156,698	2.35
Health	19,211	0.52	22,368	0.56	29,172	0.66	36,075	0.74	44,313	0.82	55,117	0.92	66,680	1.00
Population planning	1,331	0.04	3,120	0.07	4,601	0.10	4,875	0.10	5,397	0.10	5,991	0.10	6,668	0.10
Social security, welfare	3,664	0.10	1,301	0.03	3,682	0.08	3,900	0.08	4,318	0.08	4,793	0.08	5,334	0.08
Natural calamities	189	0.01	410	0.01	265	0.01	488	0.01	540	0.01	597	0.01	667	0.01
RURAL DEVELOPMENT EXPENDITURES														
Irrigation	10,133	0.27	15,535	0.39	25,194	0.57	32,370	0.66	43,176	0.80	56,315	0.94	73,348	1.10
Land reclamation	1,838	0.05	1,759	0.04	1,768	0.04	2,438	0.05	2,699	0.05	2,996	0.05	3,334	0.05
Rural development	12,325	0.33	16,883	0.42	6,188	0.14	7,228	0.15	8,635	0.16	10,185	0.17	12,002	0.18
Rural electrification	-	-	-	-	1,000	0.02	1,000	0.02	1,079	0.02	1,198	0.02	1,334	0.02
SAFETY NETS														
Food subsidies	5,513	0.14	10,859	0.27	13,260	0.30	14,625	0.30	16,191	0.30	17,973	0.30	20,004	0.30
Food Support Programme	2,017	0.05	2,236	0.05	3,536	0.08	3,900	0.08	3,778	0.07	4,194	0.07	4,668	0.07
Tawana Pakistan	800	0.02	590	0.01	700	0.02	500	0.01	540	0.01	545	0.01	669	0.18
Low-cost housing	-	-	60	-	165	-	-	-	-	-	-	-	-	-
GOVERNANCE														
Administration of justice	1,981	0.05	2,247	0.06	2,652	0.06	3,413	0.07	4,318	0.08	5,392	0.09	7,196	0.11
Law and order	31,004	0.80	36,293	0.90	39,205	0.89	43,388	0.89	48,033	0.89	54,518	0.91	61,346	0.92
TOTAL	167,250	4.49	208,840	5.20	238,795	5.40	278,023	5.70	323,878	6.00	383,620	6.40	453,287	6.80
I-PRSP target		3.60		3.80		4.00		4.20		4.40		4.60		4.80

Source: GoP 2003.

ANNEX 6: LOCAL GOVERNMENT TAXES UNDER THE LGO 2001

SECOND SCHEDULE

See Sections 39(b), 54(l), 54-A, 67(i), 67-A and 88(b)

Part I Zilla Council

1. Education tax.
2. Health tax.
3. Any other tax authorised by the Government in consultation with the Finance Department.
4. Local rate on lands assessable to land revenue.
5. Fees in respect of educational and health facilities established or maintained by the District Government.
6. Fee for licences or permits and penalties or fines for violations.
7. Fees for specific services rendered by a district government.
8. Collection charges for recovery of tax on behalf of the government, Tehsil Municipal Administration and Union Administrations.
9. Toll on roads, bridges, ferries maintained by a District Government.
10. Rent for land, buildings, equipment, machinery, and vehicles owned by the District Government.
11. Fee for major industrial exhibitions and other public events organised by the District Government.

Part II City District Council

1. Education tax.
2. Health tax
3. Any other tax authorised by the Government.
4. Local rate on lands assessable to land revenue.
5. Fees in respect of educational and health facilities established or maintained by the City District Government.
6. Fee for licences or permits and penalties or fines for violations.
7. Fees for specific services rendered by a district government.
8. Toll on roads, bridges, ferries maintained by a City District Government.
9. Rent for land, buildings, equipment, machinery, and vehicles owned by the City District Government.
10. Fee for major industrial Exhibitions and other public events organised by the City District Government.
11. Fee on advertisements.
12. Collection charges for recovery of any tax on behalf of the Government, Town Municipal Administration, Union Administrations or any statutory authority as prescribed.
13. Fee for approval of building plans, erection and re-erection of buildings.
14. Charges for execution and maintenance of works of public utility lighting of public places, drainage, conservancy and water supply operated and maintained by City District Government.

Part III Tehsil Council

1. Local tax on services.
2. Fee on sale of animals in cattle markets.
3. Market fees.
4. Tax on the transfer of immovable property.
5. Property tax rate as specified in section 117 of this Ordinance.
6. Fee on advertisement other than on radio and television and billboards.
7. Fee for fairs, agricultural shows, cattle fairs, industrial exhibitions, tournaments and other public events.
8. Fee for approval of building plans, erection and re-erection of buildings.
9. Fee for licences or permits and penalties or fines for violations.
10. Charges for development, betterment, improvement and maintenance of works of public utility like lighting of public places, drainage, conservancy and water supply by Tehsil Municipal Administration.
11. Fee on cinemas, dramatical, theatrical shows and tickets thereof, and other entertainment.
12. Collection charges for recovery of any tax on behalf of the Government, District Government, Union Administrations or any statutory authority as prescribed.
13. Rent for land, buildings, equipment, machinery and vehicles.
14. Fee for specific services rendered by a Tehsil Municipal Administration.
15. Tax on vehicles other than motor vehicles registered in the Tehsil.

Part IV Town Council

1. Local tax on services.
2. Fee on sale of animals in cattle markets.
3. Market fees.
4. Tax on transfer of immovable property.
5. Fee for fairs, agricultural shows, cattle fairs, tournaments, industrial exhibitions, and other public events organised by the Town Municipal Administration.
6. Fee for licences or permits and penalties or fines for violations.
7. Collection charges for recovery of any tax on behalf of the Government, City District Government, Union Administrations or any statutory authority as prescribed.
8. Fee on cinemas, dramatical, theatrical shows and tickets thereof, and other entertainment.
9. Rent for land, buildings, equipment, machinery and vehicles.
10. Fee for specific services rendered by a Town Municipal Administration.'
11. Property tax rate as specified in section 117 of this ordinance.
12. Fee for approval of building plans, erection and re-erection of buildings with the approval of the City District Government.
13. Tax on vehicles other than motor vehicles registered in the Town.

Part V Union Councils

1. Fees for licensing of professions and vocations as prescribed.
2. Fees for registration and certification of birth, marriages, and deaths.
3. Charges for specific services rendered by the Union Council.
4. Rate for the remuneration of Village and Neighbourhood guards.
5. Rate for the execution or maintenance of any work of public utility like lighting of public places, drainage, conservancy and water supply operated by Union Administration.
6. Rent for land, buildings, equipment, machinery and vehicles.
7. Collection charges for recovery of any tax on behalf of Government, District Government, Tehsil Administration or any statutory authority as prescribed.



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