

## Environmental Fiscal Reforms (EFRs)

Country: India Overall Term: March 2012 to February 2015

Implementing Agencies: GIZ (Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH) of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Ministry of Environment and Forests (MoEF) of the Government of India, and The Energy and Resources Institute (TERI)

### Context

The complex and cross-sectoral nature of the environmental issues creates the need for variety of instruments and policy measures for the protection of the environment and management of natural resources. Over the last few decades, economic instruments have been used to complement legislation-based environmental policy in the developed countries. Recent years have seen the emerging countries also making increasing use of such instruments.

In India, the use of fiscal incentives has been restricted to tax concessions for adoption of pollution control equipment and promotion of renewable energy technologies. On the other hand, there has been growing recognition of the fiscal and environmental implications of subsidy policies in the energy, water and agriculture sectors.

Fiscal policies and instruments in the context of environmental policy include environment-related taxes and subsidies, pollution charges, government spending on environmental schemes and also pricing of natural resources and environmental services.

The design of Environmental Fiscal Reforms (EFRs) is far from simple since it requires the consideration of a number of interdependent criteria including efficiency and cost effectiveness of the instrument, its distributional and equity impacts, fiscal implications, and administrative feasibility and flexibility. Environmental jurisdiction as well as potential trade-offs with respect to different policy objectives and stakeholders interests need to be factored into such a design.

### Objective

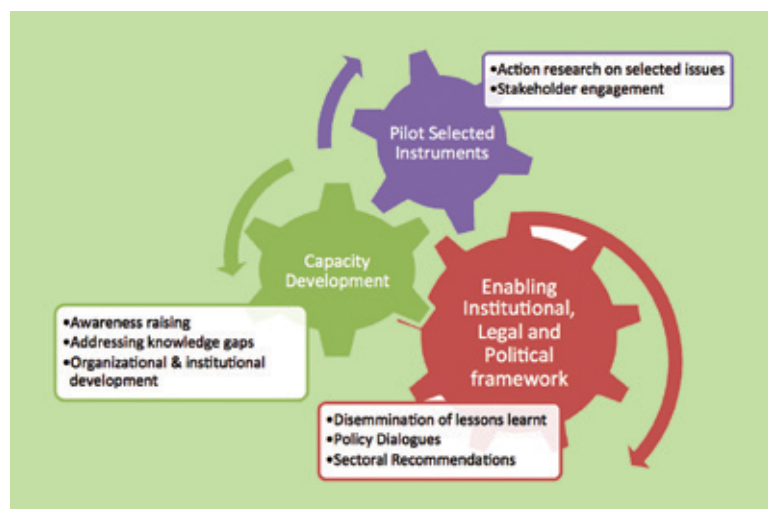
The Indo-German Environment Partnership (IGEP) programme of GIZ (Deutsche Gesellschaft

für Internationale Zusammenarbeit GmbH) supports the Government of India in elaborating national, regional and sector specific approaches to environmental fiscal reforms.

### Approach

The interventions and project design aims to address some major issues like what are the potential instruments, existing administrative, institutional and legal framework for design; monitoring and enforcement of these instruments; understand the political economy by analysing the trade-offs and design compensatory mechanisms. The services offered by IGEP programme include:

- Conduct action research on identifying EFR instruments for selected environmental issues
- Establish and support organizations and institutions that deal with this issue
- Initiate partnerships between stakeholders in research, capacity development and designing policy interventions
- Create and strengthen networks for multi-stakeholder engagement and information sharing



## Activities

The research project on EFR in India was implemented to recommend the fiscal instruments and institutional changes that seem most appropriate for the issues under examination and possible ways to implement the recommendations. The set of issues selected for the research study includes:

- Environmental fiscal reforms in the municipal solid management (MSWM) sector with a focus on designing municipal charges for (two) cities i.e. Varanasi and Shimla in India
- Environmental fiscal reform for enhancing the resource efficiency and need for technology upgradation in the Micro, Small and Medium Enterprises sector
- Environmental fiscal reforms in the municipal wastewater management sector with a focus on designing municipal charges for (two) selected cities i.e. Shimla and Raipur in India
- Environmental fiscal reform for facilitating the implementation of E-waste (Management and Handling) Rules, 2011

The capacity development component for EFR is necessary to promote both economic growth and environmental stewardship through the reforms of governmental policy and should be placed within the bigger picture of capacity building for sustainable development.

Capacity development is needed to design and implement appropriate economic instruments to solve environmental problems in line with local conditions that exist. Challenges identified in the context of political economy concerns of EFR can also be addressed through capacity development, which can take on a number of forms-stakeholder processes, strengthening tax administrations and expanding their focus from expenditures to public revenues, supporting inter-ministerial co-operation, financing studies and expert exchanges to support local ownership.

## Expected Results

- Capacity development and awareness-raising about EFR is a prerequisite for the successful integration of EFR with other policy reform. The support given by the IGEP programme should result in wider dissemination of EFR designs and enhanced understanding of the stakeholders of the EFR process thus improving the acceptance of the suggested reform measures (including political acceptance) and enhancing the level of their implementation. Capacity building efforts should raise awareness of the central government ministries, semi-autonomous government agencies, local institutions, NGOs, media, private sector (including industry associations), the enforcement agencies and other government bodies responsible for overseeing EFR.

- The policy instruments under EFR include the use of environment-related pricing and taxes, such as direct pollution charges or indirect input taxes, and the reduction of environmentally harmful subsidies. Furthermore, EFR also include the creation of markets for natural resources or tradable permits and budgetary finance of environment related programs.

- In terms of policy interventions, EFR should play a significant role in effective implementation of the E-waste rules and ensuring sustainable

management of e-waste. Economic instruments are a set of tools that make use of economic incentives and deterrents in addition to market measures in order to influence waste management behaviour. The impact of the instruments depends hugely on factors like transaction and administrative costs associated with implementing the instrument, characteristic of the product/waste stream, consumer behaviour, functioning of markets, etc. However, the success of this scheme will largely depend on the institutional set up, the rate of the deposit collected, the effective monitoring and governance of the entire functioning. The IGEP programme expects to achieve this through capacity building.



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