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Green fiscal policy in Zambia: Opportunities for reform

Jacqueline Cottrell, Holger Bär, Marie Wettingfeldt and Marie Wilkens

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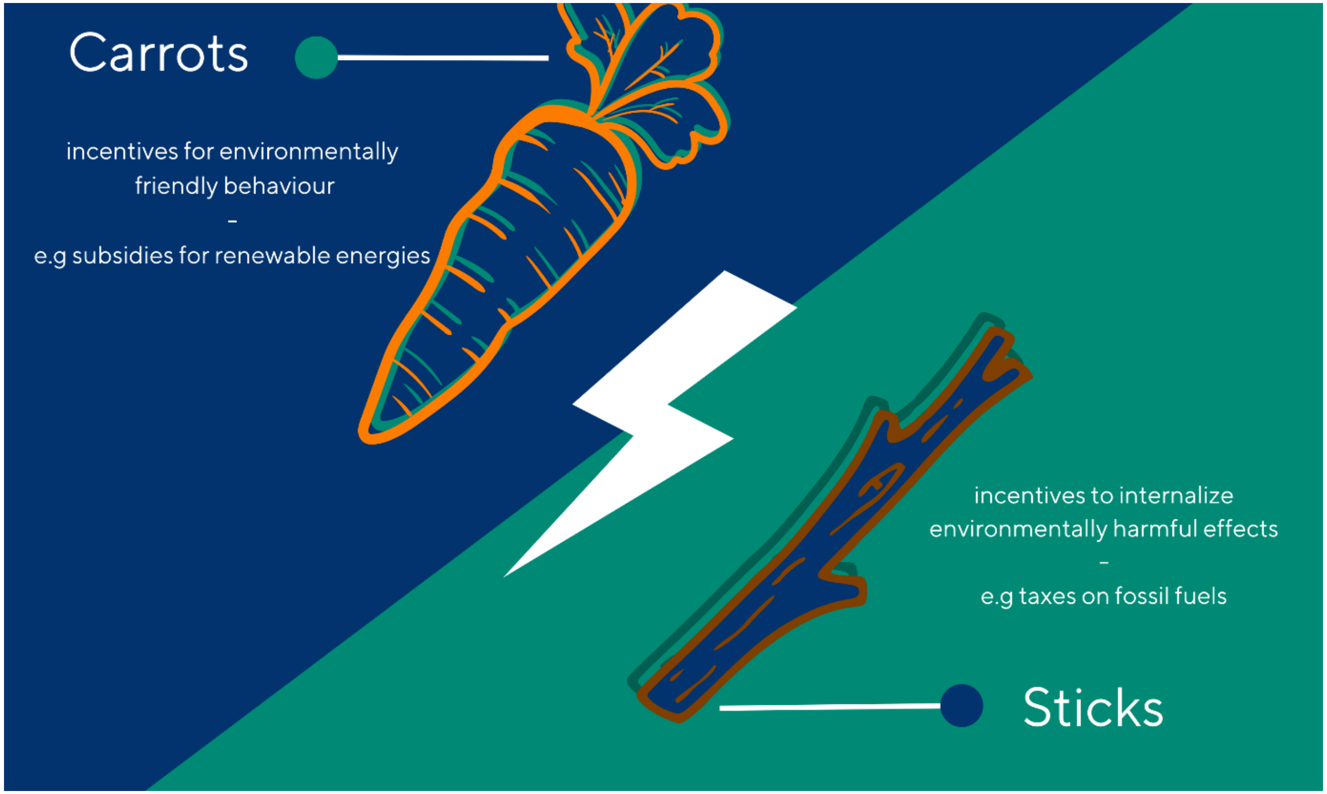
Carrots and sticks: incentivising change in Zambia



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Proposed measures – carrots, sticks, combinations

Carrots	Sticks	Carrots + Sticks
• Creation of a sovereign wealth fund / natural resource fund to finance sustainable development • Incentives for green buildings and energy efficiency in the hospitality industry • Programme for voluntary carbon offsetting for climate projects in Zambia (a virtuous carrot)	• Carbon tax on coal and heavy fuel oil for power generation • Liberalisation of transport fuel prices, long-term introduction of a carbon tax on transport fuels • Export taxes on unrefined copper • Reform and rationalization of tax incentives in mining • Greening the flight departure tax • Increasing water tariffs for the tourism industry • Greening taxes on ownership and imports	• Feebate scheme to encourage the installation of low-emissions technology in the cement sector • Combined regulatory and fiscal policy package to reduce water pollution from mining • Carrots and sticks to encourage installation of air pollution-reducing technologies in the mining sector • Reform of the carbon emission surcharge and other transport taxes

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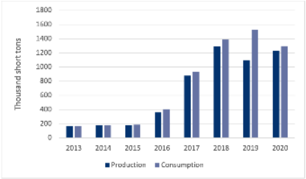

A carbon tax on coal – four possible designs

- Coal is the most polluting fuel – poses a serious threat to human health
- Coal consumption and production is on the rise
- Coal power capacity is predicted to increase from 300MW in 2023 to 940 MW by 2030 (including construction of smaller coal power plants in the mining and cement industries)
- A carbon tax would create incentives to invest in alternative power sources and e.g. in the mining and cement sectors, to implement energy efficiency measures
- Difficult to evade – upstream tax, few taxpayers
- Create momentum for further upscaling of solar power in Zambia
- The tax could mobilise domestic revenue

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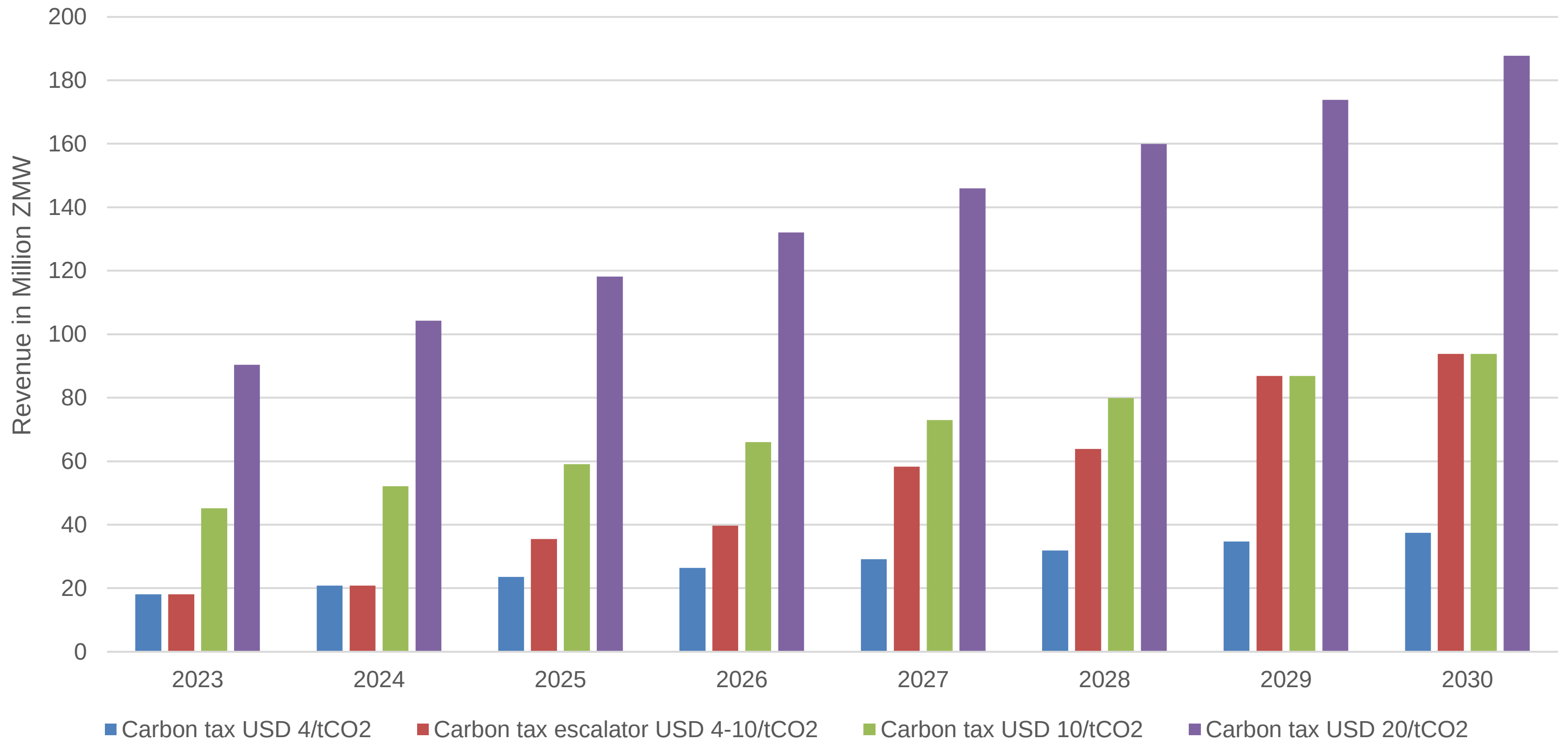
A carbon tax on coal – estimated revenues 2023-2030



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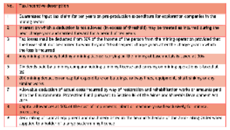
Greening existing instruments in the transport sector

- Tax waivers are inadvisable, e.g. 2021 VAT, excise and customs duty waivers on transport fuels
- Enormous cost to the budget – around 6.6% of total tax revenue (revenue loss USD 3 billion)
- 2015 study: subsidy benefits are unequal – wealthiest 20% receive 6x more than the poorest 20% (x27 for gasoline)
- Liberalisation of transport fuel prices would pave way for possible carbon tax on transport fuels in the future
- Vehicle taxes – carbon emission surtax – should be levied on vehicle or CO_2 emissions
- Motor vehicle surtax – should be greened to ensure that fuel efficient, low emissions vehicles are incentivised through the tax system



Review and revise tax expenditures and tax rebates for mining

- Tax expenditures are not quantified in Zambia
- In Rwanda, the 2020-21 tax expenditure report revealed that tax expenditures were equivalent to around 19% of tax revenue
- Some are clearly environmentally harmful, e.g.:
  - 70% VAT rebate on fuel available to mining companies
  - 80% VAT rebate on electricity available to mining companies

- To reduce the amount of revenue foregone, it is necessary to quantify, review, redesign, rationalise or phase out tax expenditures
- Introduce a set of rules for new tax expenditures and other subsidies, which must be efficient, time-limited, and subject to regular evaluation in terms of target attainment, efficiency, and transparency

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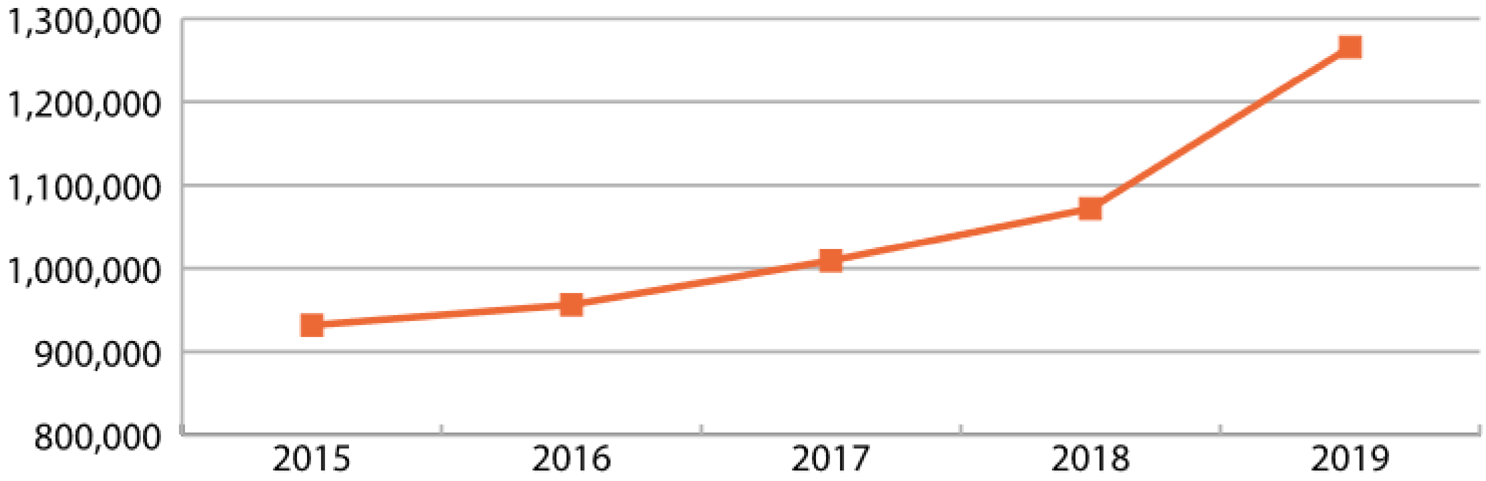
Range of tourism taxes proposed

- Greening the departure tax – longer distances pay a higher tax OR differentiate by length of stay
- A range of incentives for green buildings: reduced import duty, excise and VAT on green technologies, tax reductions for tourism reductions for investments in energy efficiency or water conservation?
- Introduction of a new higher water tariff group for hotels and lodges in the tourism sector
- Voluntary carbon offset programme (see next slide)

Voluntary carbon offset programme for climate projects

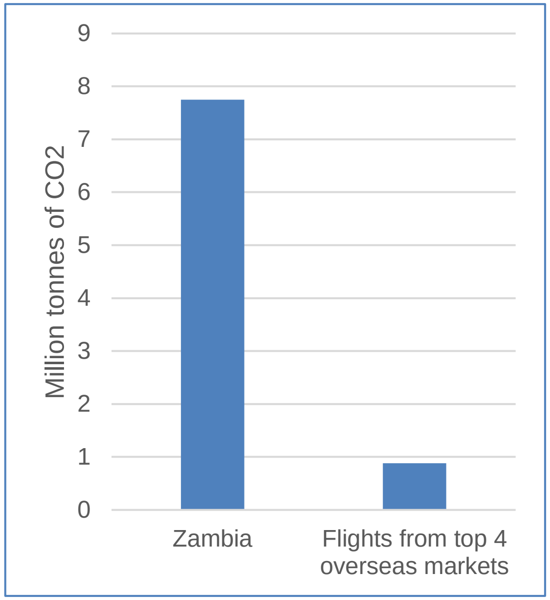
Trends in air travel to Zambia – international flights 2015-19



- In 2019, 326,583 arrivals by air
- 40% of these from USA, China, UK, India
- Average emissions 6.73 tCO_2 per return trip

4. Voluntary carbon offset programme for climate projects

Zambia's CO_2e emissions and CO_2e emissions from flights from top 4 overseas markets (India, USA, UK, China), 2019 (in million tonnes)



- ✓ If just 5% of tourists contribute, the programme could raise USD 1 million
- ✓ Significant climate benefits for little administrative effort

General recommendations of the study

- Focus on progressive GFP measures
- Strategic approach to policy sequencing – DRM, equity, evasion
- Diversify the tax base – less dependence on mining
- Introduce green budgeting to align revenue, expenditure and tax expenditures with environmental goals
- Address the need for better data on environmental harm – improved monitoring, greater transparency
- Create a coordination body – inter-ministerial and inter-agency
- Engage international expertise

As a federally owned enterprise. GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

Published by
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn

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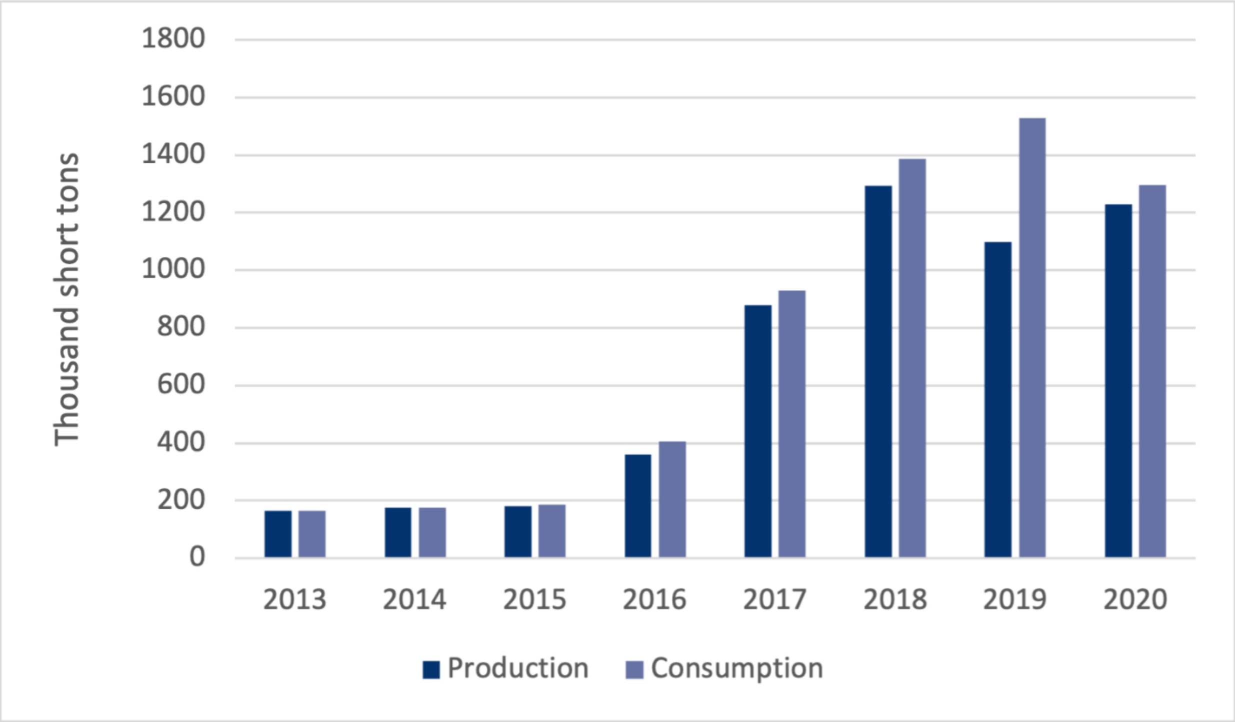
This publication has been produced with the assistance of the European Union.

Appendix A
Coal consumption and production in Zambia 2013-2019



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Annex B
VAT refunds 2020 and 2021 for mining (ZEITI 2023)

No.	Companies	VAT refunded in 2021 (Cash and /Offsets) ZMW'million	VAT refunded in 2020 (Cash and /Offsets) ZMW'million
1	Kansanshi Mining PLC	1,083.99	1,487.17
2	Konkola Copper Mine PLC	1,376.85	1,717.17
3	Lumwana Mining Co. Ltd	0.00	1,253.73
4	Mopani Copper Mines PLC	448.63	0.00
5	Kalumbila Minerals	31.36	1,561.37
6	FQM Operations	242.00	238.00
7	Chambishi Copper Smelter Ltd	3,119	2,452.14
8	NFC Africa Mining PLC	0.00	0.00
9	Lubambe Copper Mine Ltd	0.00	176.00
10	Chilanga Cement	0.00	7.38
11	CNMC LUanshya Copper Mines Ltd	451.38	390.66
12	ZCCM-IH	0.5	-
13	KAGEM	8.34	-
TOTAL		**6,762.05**	**8,487.38**

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