GOGLA

The Voice of the Off-Grid Solar Energy Industry

UKaid from the British people

TEA Transforming Energy Access

GOGLA.ORG

Advocating for VAT and duty exemptions for off-grid solar

SOUTHERN AFRICA – DAY TWO

Today's schedule

Today's content is focused on quantifying the business case for tax exemptions, tailoring messaging to different stakeholders, and understanding the key implementation challenges

1h:30mins	Recap on Day 1
	Quantifying the business case for exemptions
	Tailoring your message for different stakeholders
	Highlighting some implementation challenges
0h:10mins	Short break
1h:20 mins	Drawing together the components of your strategy
	Breakout discussion
	Case study examples

Recap from Day 1

Yesterday we focused on the main arguments for tax exemptions, and some of the basics of the taxes that we are trying to secure exemptions for

Making the case for exemptions

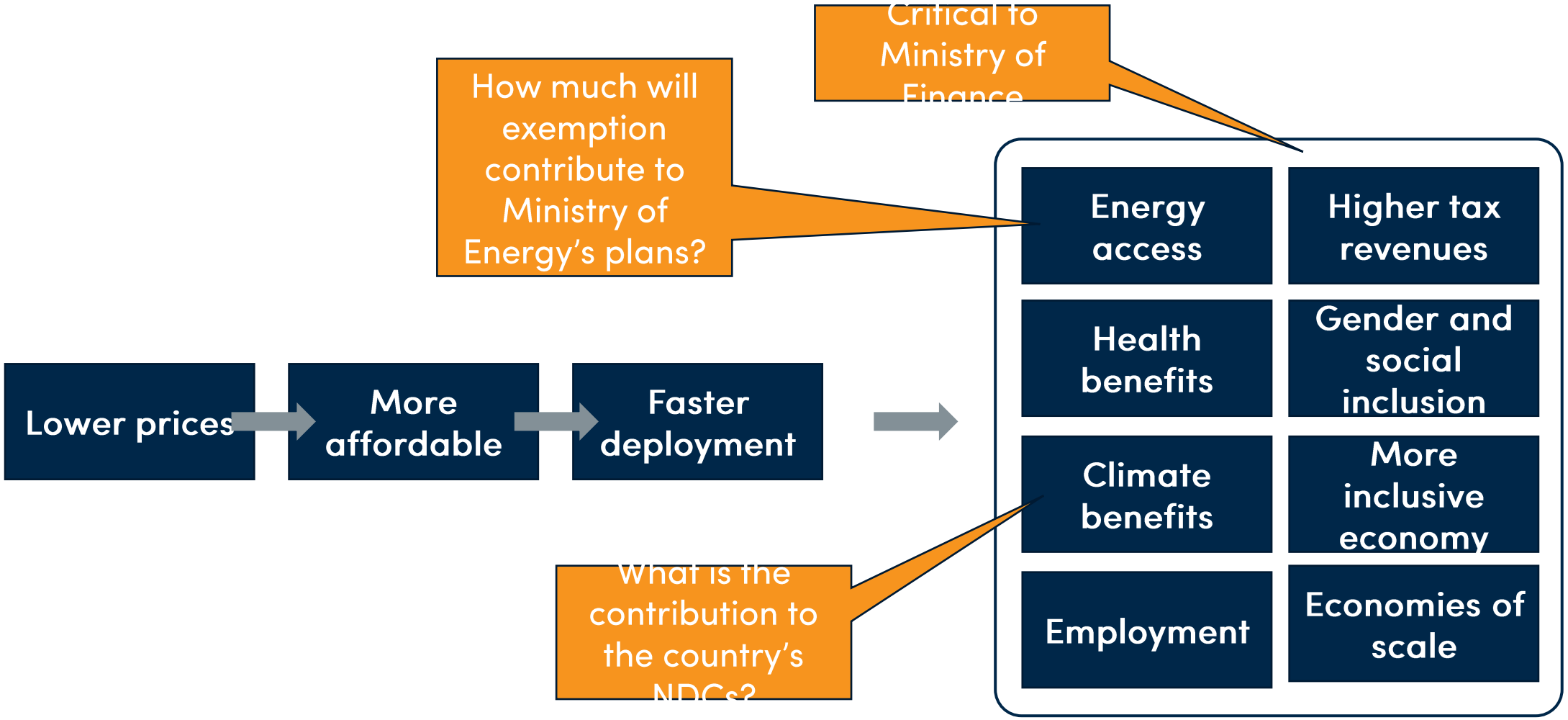
- Taxes raise the price of solar products.
- This can inhibit uptake.
- In turn, this means many households, communities, and micro-businesses do no access the benefits of modern, clean energy access.
- Most governments have made international and national policy commitments that would be aided by accelerated deployment of solar.
- Other modes of delivering energy access often (not always) benefit from tax exemptions, and/or other fiscal support.

The advocacy challenge

- There are a lot of stakeholders that might need to be engaged – although this will vary by context.
- It is important to understand the process(es) that your advocacy needs to feed into.
- Both VAT and import duties can make a significant contribution to total tax revenues, making it very important to have a robust business case.
- Understand where traders are experiencing practical issues with VAT and duties: this might impact the exemption you are asking for.
- Regional trade agreements can have an impact on who your key stakeholders are.

Quantifying the business case for tax exemptions

Having a clear story will be critical for the success of your advocacy, but quantification will be critical for some key decision makers



annotation

Evidence needs of different stakeholders

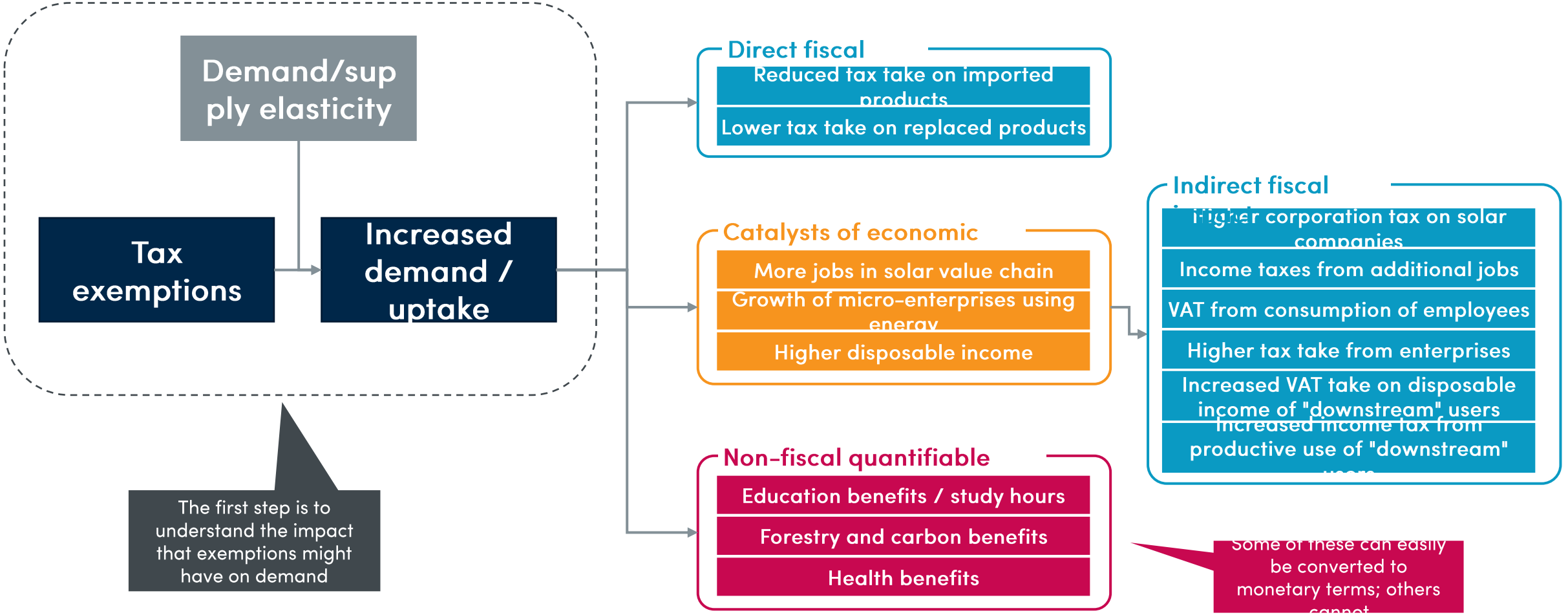
Considering the different groups of policy makers, what evidence might they need to be supportive of import duty and VAT exemptions?

Ministry of Finance	Ministry of Energy

Other government departments	Parliamentary committees	Regional / local government

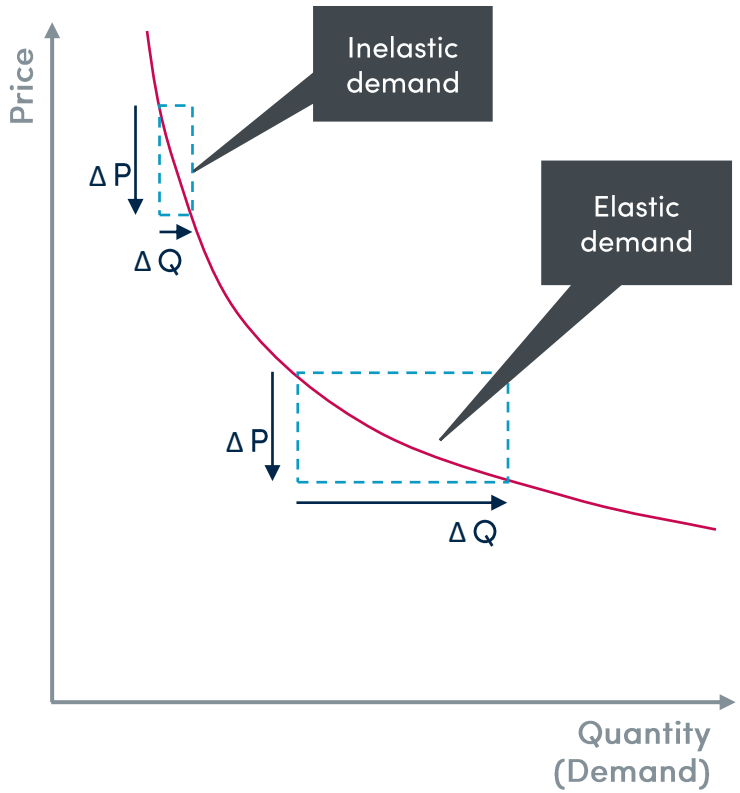
Framework for quantifying the business case

Before we can quantify the benefits of tax exemptions, we need to understand how the benefits all fit together



Understanding the impact of taxes on demand

Tax exemptions that are passed through to end consumers with a price reduction will result in higher demand – which is key to driving the other benefits highlighted in your business case



So…how elastic is the demand for solar products?

- This is highly uncertain.
- It depends on the products being considered and the country / regional / community context.
- Recent analysis from Duke University suggests demand elasticity of about **-0.9**. This means that a 10% price reduction would result in a 9% increase in demand.
- But there are a wide range of estimates.
- **Be careful!** Remember you are also arguing that this is an essential product…which would typically be associated with inelastic demand.

The need for local evidence

- Because generic assumptions are open to challenge, consider using data specific to your country / context.
- Good quality household surveys provide income distribution data.
- Member surveys might provide useful data points and anecdotes.

Another way to frame this is to look at the impact on *affordability*

There is a growing body of research on how much end users are able and willing to spend on off-grid solar products – which provides an alternative to a single "elasticity" approach

Uganda's Ability to Pay at 5% of Monthly Consumption on Electricity Access

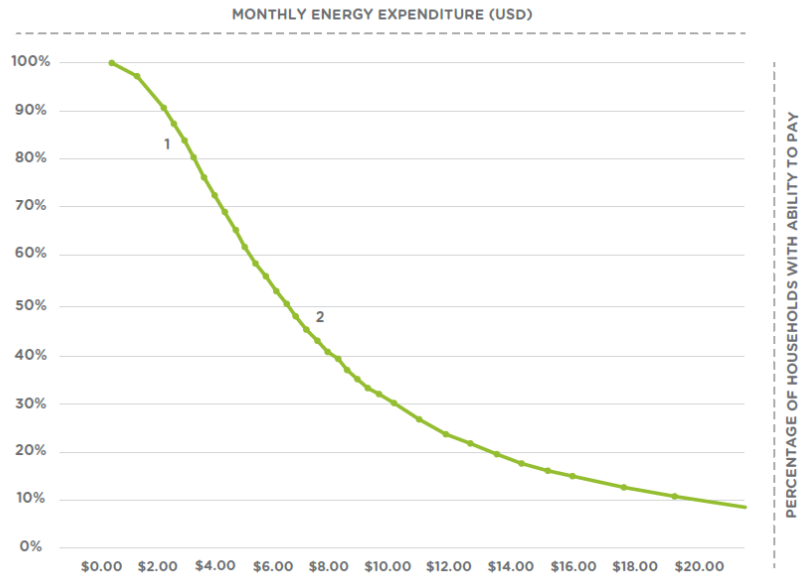
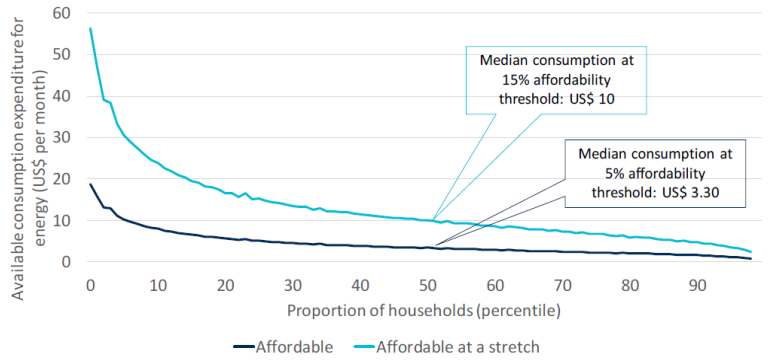


Figure 12 Affordable energy expenditure is US$ 3.50 per household per month



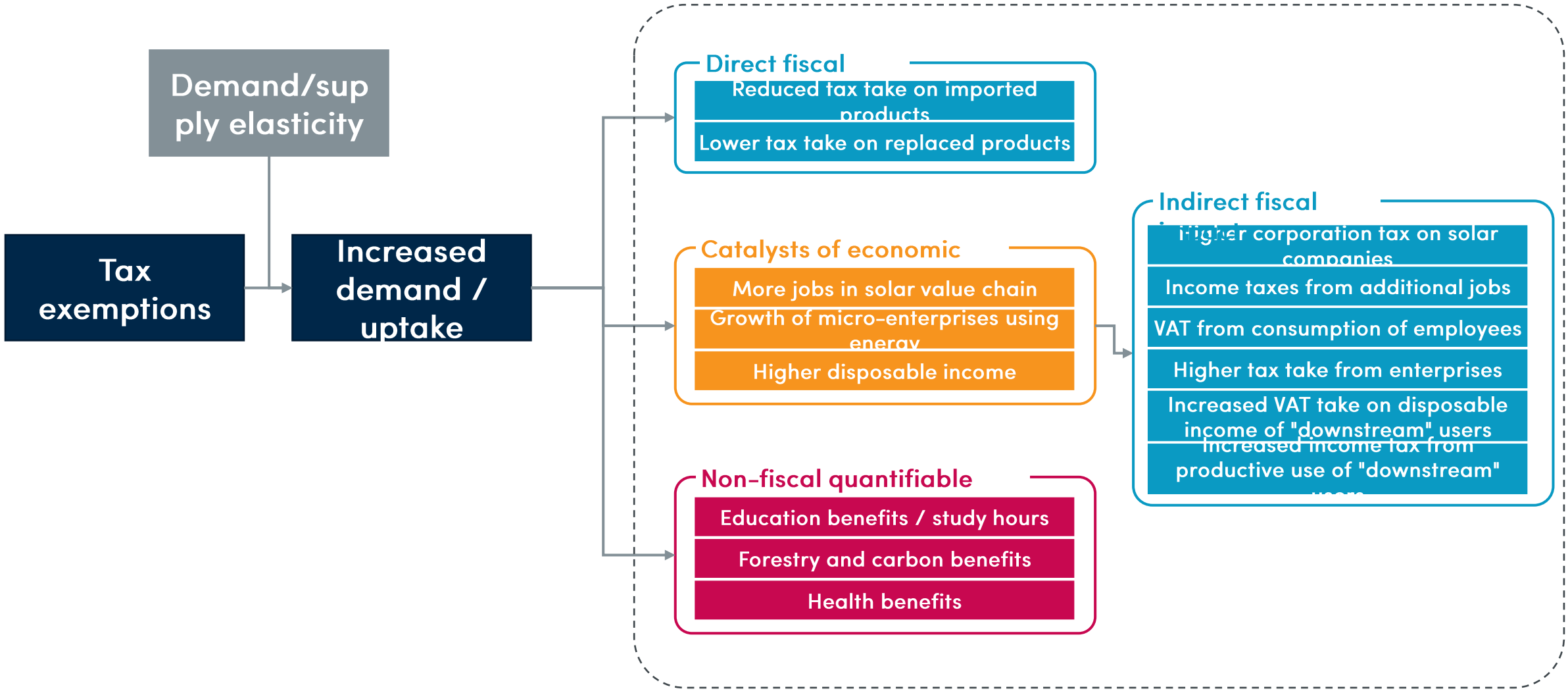
Source: Consortium based on PovcalNet and ECVMB, company research and stakeholder consultations

So…how many households can *afford* a solar product?

- Rather than assume a single elasticity of demand, instead ask the question "how much of the potential market can afford these products"? How do taxes change this situation?
- This can be adapted relatively easily to your local circumstances
- The Off-Grid Solar Market Trends report adopts this approach in both 2018 and 2020
- The SEforAll (2019) "Energising Finance – Taking the Pulse" report piloted this analysis for Uganda, the Philippines, and Madagascar
- The Lighting Africa (2020) Burundi market assessment adopts a similar, slightly tailored approach
- Lots of sources could be used to construct this type of "demand curve" – PovcalNet can be a useful starting point, combined with national surveys, and expenditure on other energy products

Quantifying the benefits of increased uptake

Now that we understand the increase in demand that might result from tax exemptions, we can quantify the benefits that result from that increased uptake

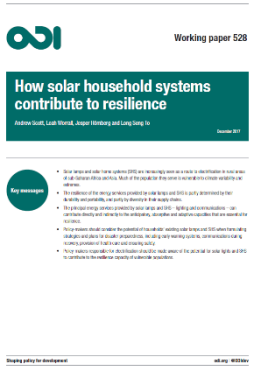


Data points and ideas for measuring the impact of off-grid solar

Each country will be different, but there are many sources available to suggest methodologies and data points that can be used when estimating the benefits of accelerated deployment of off-grid solar

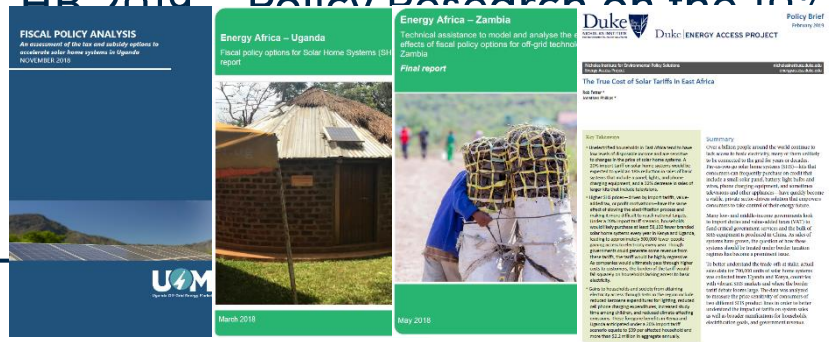
Global resources covering the impact of energy access

- GOGLA standardized impact metrics
- GOGLA Powering Opportunity – first global publication in 2018 with more recent studies in each of East Africa, West Africa, South Asia
- GOGLA "Growth Engine for Jobs"
- Lighting Global "Off Grid Solar Market Trends" every two years (most recent 2020)
- 60 Decibels household surveys and key customer metrics



Previous cost-benefit and fiscal analyses, and associated data sources

- Energy Africa 2016 – Mozambique OGS Fiscal Study
- Energy Africa 2017 – Malawi OGS Fiscal Study
- Energy Africa 2018 – Uganda OGS Fiscal Study
- Energy Africa 2018 – Zambia OGS Fiscal Study
- Shell Foundation 2018 – Uganda-Fiscal-Policy-Analysis for OGS
- Duke 2019 – The True Cost of Solar Tariffs in East Africa
- HB 2019 – Policy Research on the 10% duties on



Direct fiscal impact

The direct fiscal impact of the exemptions is relatively straight-forward to calculate, once the relevant taxes are understood

Direct fiscal

- Reduced tax take on imported products
- Lower tax take on replaced products

Tax data for calculations

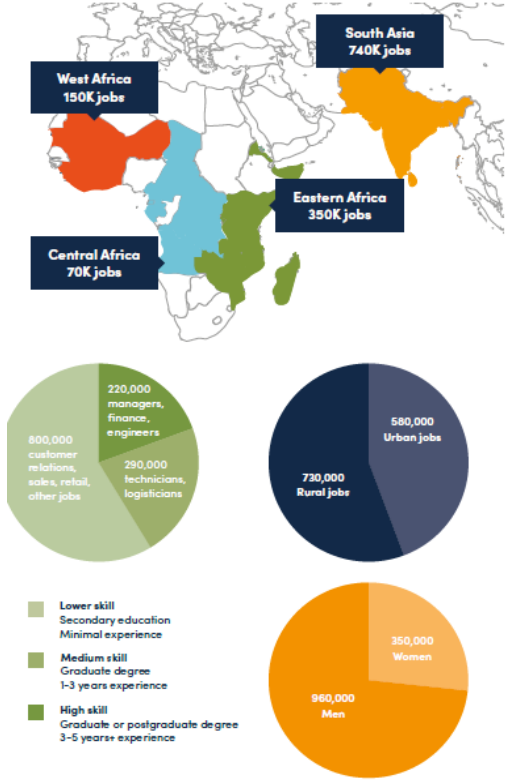
- Tax rates and rules are needed to estimate the tax impacts of increased uptake.
- NRA websites provide a useful starting point.
- It is always worth framing the discussion in the context of the country's overall ability to raise national revenue – and how important VAT and import duties are to those efforts.
- The big accounting firms' websites often also provide a useful starting point.
- Then the big question is what the net impact will be on tax revenues – the previous off-grid solar / tax studies have all considered this and provide the best place to start.
- In the short-term, there is an immediate effect of foregone revenues from VAT and import duties.... BUT, in the longer term, a more mature sector will contribute more to the economy and to other forms of taxation.

Catalysts of economic growth

Wherever possible try to use local / country-specific evidence to estimate the impact of off-grid solar on customers' lives

Catalysts of economic

- More jobs in solar value chain
- Growth of micro-enterprises using energy
- Higher disposable income



Source: GOGLA (2019) "Off-Grid Solar. A Growth Engine for Jobs"

"Upstream impacts" – Jobs in the solar value chain

- The key question here is to determine the extent to which the off-grid solar value chain creates *more*, or *better*, employment opportunities.
- UNEP (2014) "Light and livelihoods" is often the original reference, but there is MUCH more data out there now!
- GOGLA (2019) "Growth Engine for Jobs" has estimates of employment factors by skill-level, value chain, and region.
- Power Africa's (2019) "Powering Jobs Census 2019: The Energy Access Workforce" also has estimates of employment in the solar value chain.
- IEA and IRENA also have recent publications on jobs by renewable energy technology.
- Solar companies are best placed to provide employment data, but this data is sensitive – consider how long it will take to get NDAs in place.
- Nonetheless, it is really important to consider (often valid) counter-arguments, for example if these jobs displace employment in e.g. kerosene distribution chains.

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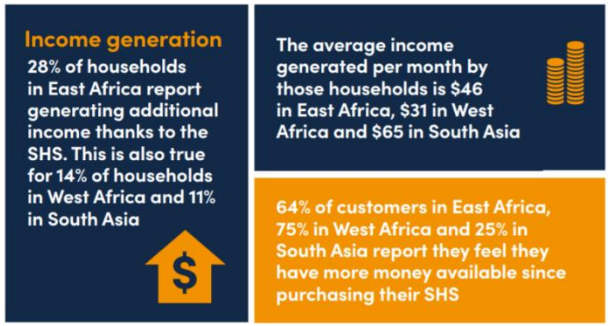

Source: GOGLA (2020) "Powering Opportunity"

"Downstream impacts" - productive economic activity by end users

- The impact of off-grid solar on end customers can vary greatly by country and even by community.
- Nonetheless there is a body of recognised evidence out there now – first and foremost among the GOGLA *"Powering Opportunity"* series
- A key question here is to differentiate by the *type* of products bought. If taxes result in customers who would have bought a small SHS now only buying a lighting system, they may be less able to put this to productive use
- That said, the evidence is stronger around income generation for relatively larger systems – not for example single pico lanterns.
- What evidence – quantitative or anecdotal can you present on solar devices supporting economic activity? Economic diversification?
- The "gold" standard would be detailed household and business surveys in your specific context – but of course these are expensive and time consuming, and also hard to get right!
- Don't let the *"perfect be the enemy of very very good"*!

Indirect fiscal impact

The indirect fiscal impacts of tax exemptions can be pivotal to the business case over the medium to longer term, but they do depend on the more judgemental metrics highlighted on the previous slide

Indirect fiscal

- Higher corporation tax on solar companies
- Income taxes from additional upstream jobs
- VAT from consumption of employees
- Higher tax take from enterprises
- Increased VAT take on disposable income of "downstream" users
- Increased income tax from productive use of "downstream" users

Corporation tax

- A thriving solar industry will pay more corporation tax.
- However, this is an argument to be careful with as it indicates profits.
- Ministry of Finance will not want to be seen to be subsidising profits

Taxes paid by solar workers

- The GOGLA "Growth Engine for Jobs" presents useful evidence on the respective shares of formal vs informal jobs, and on the skill level of those jobs.
- This could be used to estimate the proportion of workers in the value chain who may be making tax contributions at standard income tax rates.
- In the absence of good data from solar companies, salaries could be estimated using publicly available data on Gross National Income (GNI).
- The key questions to be able to make this case are:
  - How many jobs are created?
  - How many are in the formal, and therefore taxable sector?
  - What is the average income of these jobs, and how much income tax is generated?
- Even where jobs do not generate income tax contributions, they may result in increased consumption of other, VAT-able, products.
- Companies may generate a profit margin, and pay corporation or revenue taxes.
- Of course, the best datapoint for this analysis of salaries and income tax

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Other fiscal benefits

- The new users of solar products may also contribute to other forms of tax
- That said, it is unlikely that many of the "downstream" jobs are in the formal sector and therefore contributing to direct income taxes
- But, any additional income will be spent in the local economy, supporting other jobs and potentially on VAT-able products

Non fiscal quantifiable benefits

Many of the other benefits generated by off-grid solar will vary greatly between countries and will ideally be estimated using locally collected data

Non-fiscal quantifiable

- Education benefits / study hours
- Forestry and carbon benefits
- Health benefits

Key message: Across all of these metrics, there is a balancing act between presenting a strong business case and adopting overly aggressive assumptions. If Ministry of Finance can see that promised results have not been delivered there is a risk that that exemptions are withdrawn later

Study hours

- An increasing volume of literature supports the notion that off-grid solar increases time for study: Acumen have found children to study for one hour more on average.
- If possible, this evidence can be supplemented with local findings or anecdotes.

1 hour of extra study time is gained at night, contributing to more opportunities for children to participate at school.

Source: Acumen (2017) "Energy Impact Report"

"My children can read comfortably. My children used to study for 30 minutes every day from 8.30 pm to 9.00 pm, whereas these days they read for 3 hours, from 7.00 pm to 10.00 pm. The one in class 8 used to be in the 18th position but now he's in the 5th position. The one in class 7 used to be in the 30th position but now he's the 7th position."
M-KOPA Customer, Ainamoi, Kenya

Source: GOGLA (2020) "Powering Opportunity – East Africa"

Carbon and health

- Carbon and health benefits can be more complex to calculate, and will typically only be material if solar systems are being used for cooking, displacing the use of firewood and charcoal.
- Carbon savings will vary depending on the forestry stock of a country.
- Health benefits can also vary greatly. Good data on the health impact of Household Air Pollution is available from the Institute for Health Metrics and Evaluation (IHME).

Any
questions?

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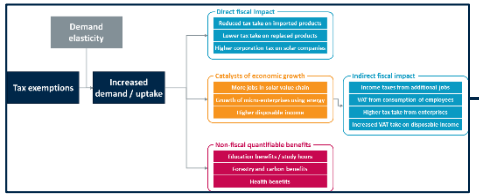
Tailoring your message to different stakeholders

Quantification of the benefit might be critical for some stakeholders, but overwhelming for others; and different stakeholders will want to see different benefits analysed



Fiscal analysis

- Ministry of Finance is likely to be focused primarily on the fiscal impact of the proposal.
- How will the fiscal income gained compare against the tax revenues foregone? How long will the policy take to pay for itself?

Economic cost-benefit analysis

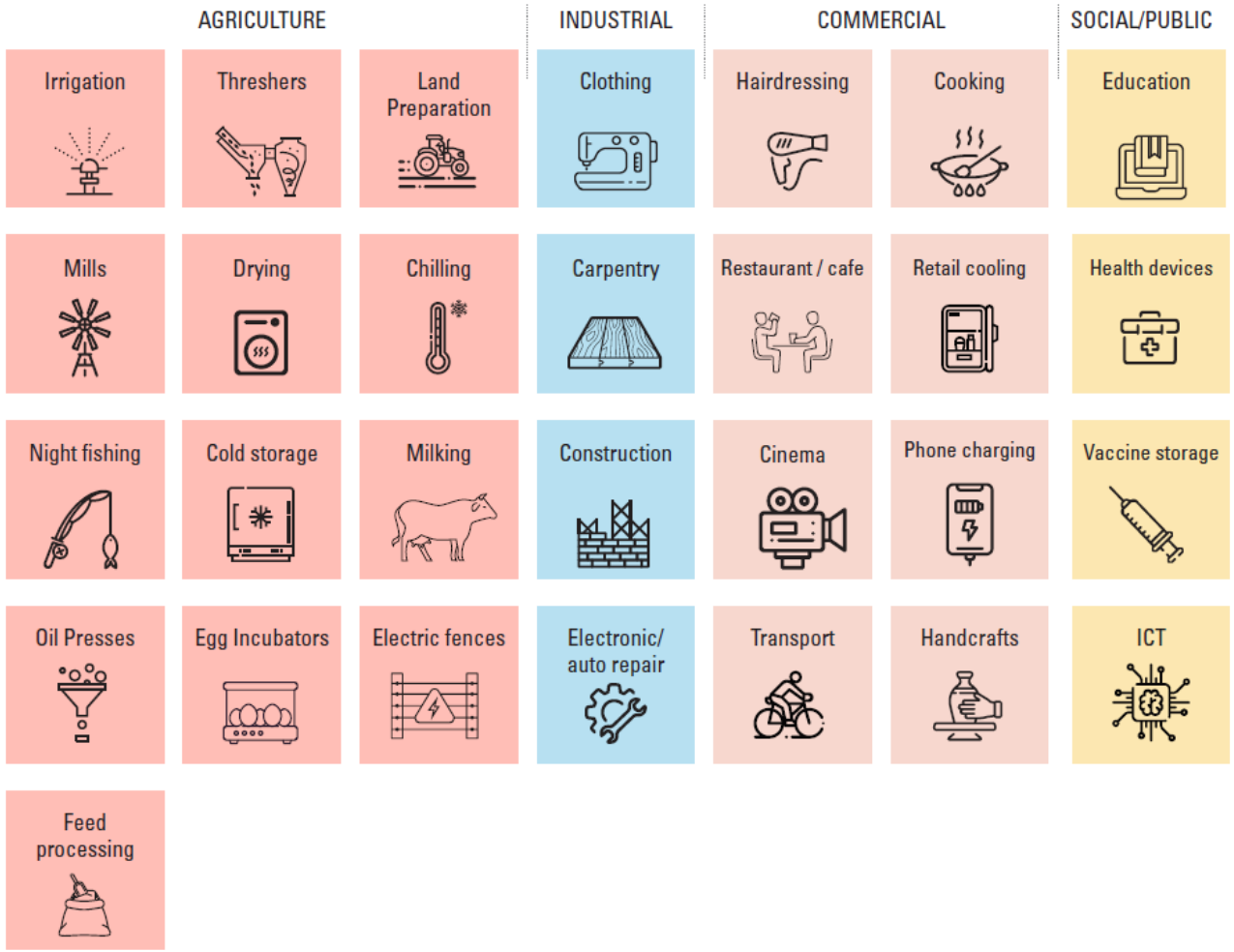
- This aggregates all of the costs and benefits that can be measures across the economy, using a net present value calculation. It aims to measure the 'net benefit' of a policy intervention.
- The analysis will include economic impacts, such as addition income, business profits, etc.
- It can also include externalities, such as emissions reduction, or improved health outcomes.

Specific metrics

- Both Ministry of Energy and Ministry of Finance could be interested in this analysis. In many cases, policy-makers might be focused on only 1 or 2 key metrics from the analysis.
- For example, Ministry of Energy might be focused on how many households gain energy access; the ministry responsible for climate policy might be focused on the resulting reduction in carbon emissions.

Considering the benefits of different appliances

There is a wide universe of productive applications of off-grid solar power which can drive the formal and informal economy, and which generate income



Source: Lighting Global (2019) "The Market Opportunity for PULSE in SSA"

- The off-grid solar sector supports a growing range of productive appliances beyond household use
- These offer opportunities for to drive formal and informal economic activities
- Boosting incomes and broader economic performance

Considering the benefits of different appliances

The business case considerations on the previous slides are focused on the 'core' or a SHS; the extent to which this can be extended to different appliances needs to be considered

LED lighting

- Efficient LED lighting is critical to the viability of SHS and SLs.
- So the argument for them to share any exemptions awarded should be straight-forward.
- Many of the benefits highlighted previously are attributable to lighting.

DC television

- Business case is less immediately obvious, esp. if exemption is specific to DC appliances.
- Business case could be tied to business growth (e.g. bars).
- Benefits of digitisation and communication technologies to drive efficient markets.
- Demand like to be more elastic than for a basic system.

DC electric pressure cooker

- Strong, but complex, business case!
- Much more emphasis on health and carbon benefits if displacing traditional cooking fuels.
- Highly dependent on nature of local wood fuel and charcoal supplies, and the cooking stack currently used by households.

Solar water pump

- Improved agricultural productivity.
- Supporting evidence would ideally estimate this, as well as the net fiscal impact.

Longevity of the exemption required

If some of the arguments used to push for tax exemptions are only valid in the short-term, it might be that the exemption could be time-limited. This might make it more acceptable to Ministry of Finance

- Some benefits might only be applicable in the short to medium term.
- To the extent that this is the case, it might be better to argue for a time-limited exemption.
- However, these arguments will again vary by country / context.

Improve uptake of SHS

- As energy access rates increase and communities' economic well-being increases, uptake is less likely to be reversed.
- However, for communities with lower access rates and lots of marginal energy users, there is a greater risk of reversal.

Micro-enterprise and productive use

- As businesses become established and become more aware of the benefits of electricity access, incentives may be less necessary.
- However, some investments (and end-customer purchase decisions) might have a high price elasticity of demand.

Level playing field

- In countries where VAT is not charged on grid electricity, there is an argument for retaining exemptions for off-grid supply to maintain a level playing field.
- But the VAT treatment of grid electricity varies by country.

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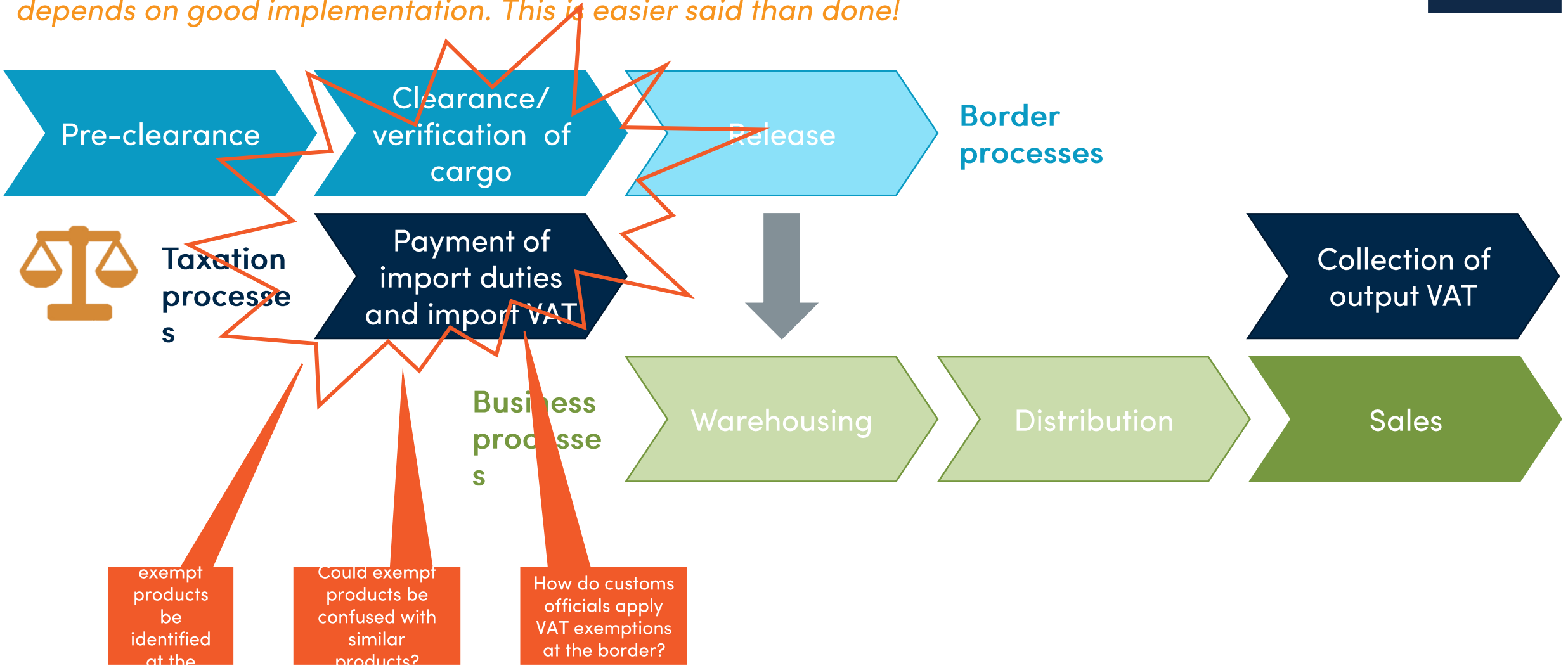
Challenges in implementing tax exemptions for off-grid solar

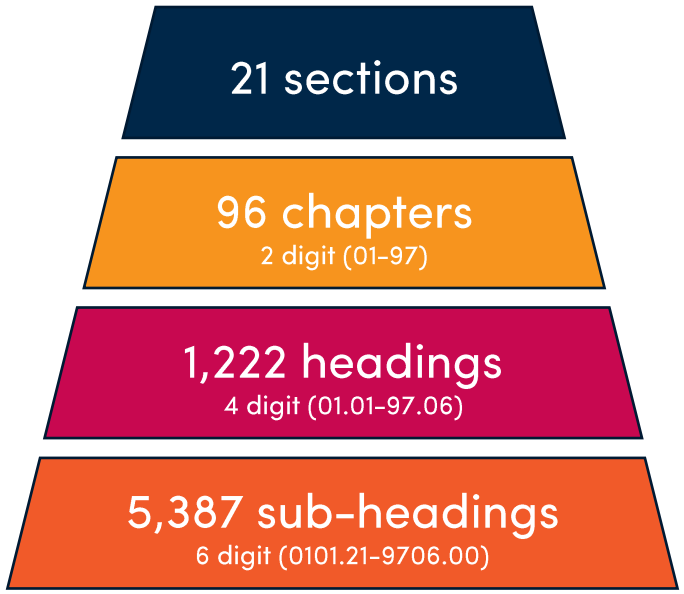
Tax exemptions will not unlock the promised benefits if they are not consistently applies, which depends on good implementation. This is easier said than done!

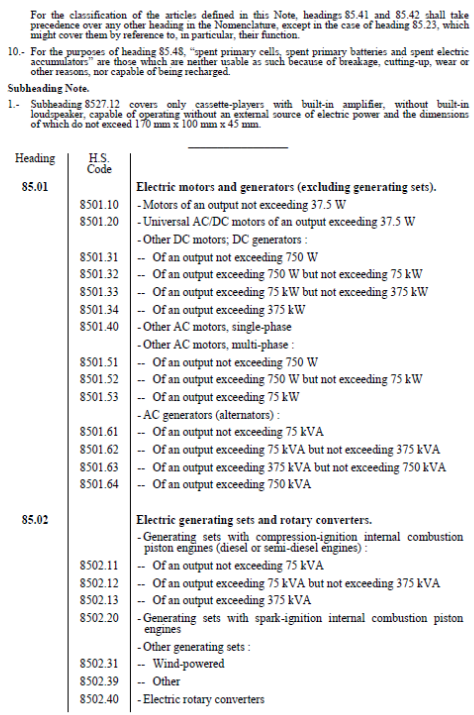


Introducing the Harmonised System (HS)

The Harmonised System provides an international framework for identifying good at the border via a standard 6-figure code

World Customs Organization
Organisation Mondiale des Douanes





For the classification of the articles defined in this Note, headings 85.41 and 85.42 shall take precedence over any other heading in the Nomenclature, except in the case of heading 85.23, which might cover them by reference to, in particular, their function.

10.- For the purposes of heading 85.48, "spent primary cells, spent primary batteries and spent electric accumulators" are those which are neither usable as such because of breakage, cutting-up, wear or other reasons, nor capable of being recharged.

Subheading Note.

1.- Subheading 8527.12 covers only cassette-players with built-in amplifier, without built-in loudspeaker, capable of operating without an external source of electric power and the dimensions of which do not exceed 170 mm x 100 mm x 45 mm.

Heading	H.S. Code	
85.01		**Electric motors and generators (excluding generating sets).**
	8501.10	- Motors of an output not exceeding 37.5 W
	8501.20	- Universal AC/DC motors of an output exceeding 37.5 W
		- Other DC motors; DC generators :
	8501.31	-- Of an output not exceeding 750 W
	8501.32	-- Of an output exceeding 750 W but not exceeding 75 kW
	8501.33	-- Of an output exceeding 75 kW but not exceeding 375 kW
	8501.34	-- Of an output exceeding 375 kW
	8501.40	- Other AC motors, single-phase
		- Other AC motors, multi-phase :
	8501.51	-- Of an output not exceeding 750 W
	8501.52	-- Of an output exceeding 750 W but not exceeding 75 kW
	8501.53	-- Of an output exceeding 75 kW
		- AC generators (alternators) :
	8501.61	-- Of an output not exceeding 75 kVA
	8501.62	-- Of an output exceeding 75 kVA but not exceeding 375 kVA
	8501.63	-- Of an output exceeding 375 kVA but not exceeding 750 kVA
	8501.64	-- Of an output exceeding 750 kVA
85.02		**Electric generating sets and rotary converters.**
		- Generating sets with compression-ignition internal combustion piston engines (diesel or semi-diesel engines) :
	8502.11	-- Of an output not exceeding 75 kVA
	8502.12	-- Of an output exceeding 75 kVA but not exceeding 375 kVA
	8502.13	-- Of an output exceeding 375 kVA
	8502.20	- Generating sets with spark-ignition internal combustion piston engines
		- Other generating sets :
	8502.31	-- Wind-powered
	8502.39	-- Other
	8502.40	- Electric rotary converters

- The Harmonised System (HS) is maintained by the World Customs Organisation (WCO).
- It provides a systematic coding structure that allows for goods to be classified.
- Most countries adhere to the HS.
- The HS is used for customs and trade procedures as well as for data collection and monitoring trade flows.

HS codes for off-grid solar

Determining where off-grid solar products fit into the HS has sometimes been a challenge, and has been one of the reasons for the inconsistent application of tariffs

Generally speaking, individual components are easy to classify.

Heading	H.S. Code	
85.07		**Electric accumulators, including separators therefor, whether or not rectangular (including square).**
	8507.10	- Lead-acid, of a kind used for starting piston engines
	8507.20	- Other lead-acid accumulators
	8507.30	- Nickel-cadmium
	8507.40	- Nickel-iron
	8507.50	- Nickel-metal hydride
	8507.60	- Lithium-ion
	8507.80	- Other accumulators
	8507.90	- Parts

Heading	H.S. Code	
	8539.29	-- Other
		- Discharge lamps, other than ultra-violet lamps :
	8539.31	-- Fluorescent, hot cathode
	8539.32	-- Mercury or sodium vapour lamps; metal halide lamps
	8539.39	-- Other
		- Ultra-violet or infra-red lamps; arc-lamps :
	8539.41	-- Arc-lamps
	8539.49	-- Other
	8539.50	- Light-emitting diode (LED) lamps
	8539.90	- Parts

But composite products, such as a SHS, can be more ambiguous.

Is this:

- A solar panel (8541.40)?
- A battery (8507.20)?
- An LED light (8539.50)?
- A control system (8537.10)?
- A small DC generator (8501.31)?
- A bit of each of these?

Emerging consensus

- This represents a genuine challenge for customs authorities and for all parties interacting with those processes.
- More detailed 8-10-digit codes can be used to improve clarity. **They are needed!**

HS codes for off-grid solar

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Integrated units

Basic solar lantern
8513.10
"Portable electric lamp designed to function by own source of energy"

✓/✗
Sufficient for a simple lamp, but charging could cause ambiguity

Basic SHS
8501.31
"DC generator of an output not exceeding 750 W"

✗
Ambiguous with a high risk of confusion at the border

Components

Solar panel
8541.40
"Photosensitive semiconductors, including PV cells and modules"

✓

Cabling
8544.42
"Electric conductors for voltage <1,000 V, with connectors"

✓

Electricity meter
9028.30
"Electricity meters"

✓

Li-ion battery
8507.60
"Electric accumulators – lithium-ion"

✓

Lighting and appliances

LED lighting
8539.50
"Light-emitting diode lamps"

✓

DC-powered radio
8527.19
"Reception apparatus for radio broadcasting - other"

✗
Not specific to DC-powered devices

DC-powered clippers
8510.20
"Hair clippers"

✗
Not specific to DC-powered devices

Key message: It is critical that all stakeholders – including customs – agree on which HS codes are appropriate for different products. Where the 6-figure codes are ambiguous, it might be necessary for 8–10 figure codes to be agreed with customs, especially for integrated SHS and DC appliances. Where possible these should be consistent between countries, and should be accessible in a published customs handbook.

Applying import VAT exemptions at the border

The payment of import VAT is normally administered in parallel with import duties, but the means by which goods are identified for VAT purposes can be another cause of inconsistent application

The identification of which good are exempt, or zero-rated can be ambiguous.

45. Specialized equipment for the development and generation of solar and wind energy, including deep cycle batteries which use or store solar power upon the recommendation of the Cabinet Secretary responsible for matters relating to energy.

[Act No. 7 of 2014, s. 2(a)(v), Act No. 10 of 2018, s. 19(a)(v), Act No. 23 of 2019, s. 21.]

Compared to...

67. Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating) barbeques, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, or iron or steel of tariff numbers 7321.11.00, 7321.12.00, 7321.19.00, 7321.81.00, 7321.82.00, 7321.83.00 and 7321.90.00.

[Act No. 38 of 2016, s. 30 (a)(vi).]

Sometimes, this risk is mitigated with a letter from a regulatory body, or use of Customs Procedure Code (CPC).

VAT rates are also occasionally listed alongside HS codes in tariff guides published by customs authorities.

HS Code	*Description of Goods*	*Stat. Unit of Qty.*	*Cust Duty Rate*	*Excise Duty Rate*	*VAT Rate*	*Remarks*
85.41	**Diodes, transistors and similar semiconductor devices; photosensitive semi-conductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes (LED); mounted piezo-electric crystals.**					
8541.10.00	- Diodes, other than photosensitive or light-emitting diodes (LED)	kg	15%	-	S	
	- Transistors, other than photosensitive transistors:					
8541.21.00	- - With a dissipation rate of less than 1W	kg	15%	-	S	
8541.29.00	- - Other	kg	15%	-	S	
8541.30.00	- Thyristors, diacs and triacs, other than photosensitive devices	kg	15%	-	S	
8541.40.00	- Photosensitive semi-conductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes (LED)	kg	0%	-	S	
8541.50.00	- Other semi-conductor devices	kg	0%	-	S	
8541.60.00	- Mounted piezo-electric crystals	kg	15%	-	S	
8541.90.00	- Parts	kg	15%	-	S	
85.42	**Electronic integrated circuits.**					
	- Electronic integrated circuits:					
8542.31.00	-- Processors and controllers, whether or not combined with memories, converters, logic circuits, amplifiers, clock and timing circuits, or other circuits.	kg	15%	-	S	
8542.32.00	-- Memories	kg	15%	-	S	
8542.33.00	- - Amplifiers	kg	15%	-	S	
8542.39.00	- - Other	kg	15%	-	S	
8542.90.00	- Parts	kg	15%	-	S	
85.43	**Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this Chapter.**					Act 9,2012
8543.10.00	- Particle accelerators	kg	free	-	S	
8543.20.00	- Signal generators	kg	free	-	S	

Any
questions?

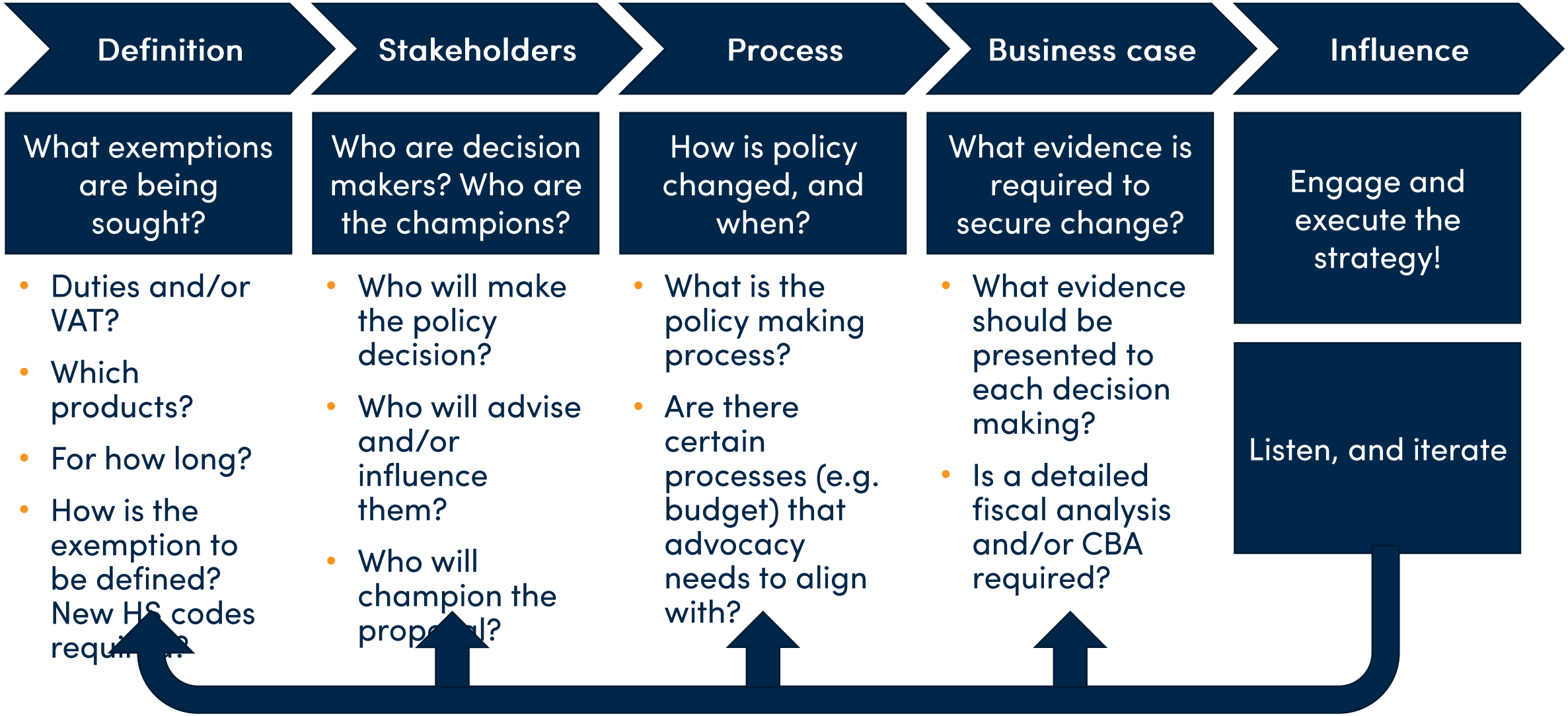
Today's schedule

Today's content is focused on quantifying the business case for tax exemptions, tailoring messaging to different stakeholders, and understanding the key implementation challenges

1h:30mins	Recap on Day 1
	Quantifying the business case for exemptions
	Tailoring your message for different stakeholders
	Highlighting some implementation challenges
0h:10mins	Short break
1h:20 mins	Drawing together the components of your strategy
	Breakout discussion
	Case study examples

Pulling it all together

We have covered a lot. The core components of an effective advocacy strategy to secure tax exemptions can be summarised by the five steps below

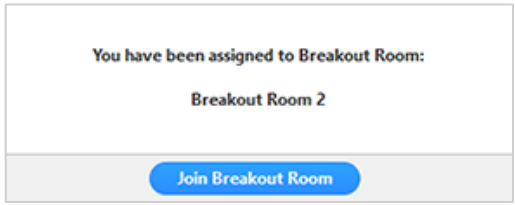


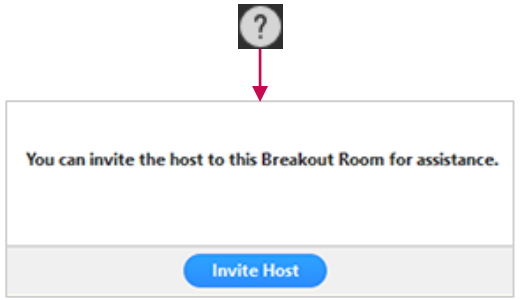
Breakout session

- In your country groups, now consider the following questions, leveraging what you have learned over the past two days:
  - Are there new exemptions that you want to secure in your country, and that you think you can build a strong case for?
  - Are there any practical barriers or challenges that need to be addressed for an exemption to be actionable?
  - What are your top 3 priorities to try to secure the exemptions you want?
  - Where would regional cooperation help with securing tax exemptions?
- 15 minutes to discuss
- 20 minutes to discuss and report back

Zoom breakout rooms

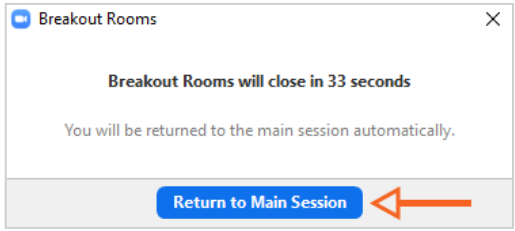
Shortly, you will be assigned to a breakout room, which you can then join for the discussion





During the discussion, you can select "ask for help" if you have questions and would like a facilitator to join you

At the end of the breakout session you will receive a notification and be asked to re-join the main session.



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Mozambique

Exemptions for neither import duties nor for VAT are in place in Mozambique, but momentum is building behind efforts to secure these

Status of import duties and VAT

- All solar products are currently exposed to both import duties and VAT.
- This is despite significant donor effort to secure exemptions; for example, through DFID's Energy Africa programme and USAID's SPEED+.
- Securing VAT zero-rating is a particular priority: VAT is 17%, versus 7.5% for import duties

Current status of advocacy work

- Building on these donor efforts, a lot of groundwork has been done by private sector actors in the market to try to secure exemptions.
- One company led the development of a paper to advocate addressing a range of challenges the sector faces, including taxes. This includes analysis of how the addressable market for SHS is impacted by price reductions.

Building up stakeholder support, step by step

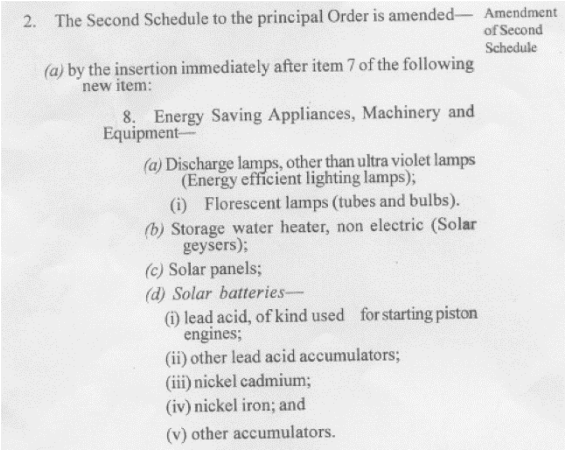
- This work has now been presented to the Rural Electrification Authority and the Ministry of Mineral Resources and Energy to gain support.
- The aim is to be in a position to start a process of securing exemptions with Ministry of Finance from early next year.
- Groundwork by the local solar association has identified potential process issues: the customs regulations for exemptions can only be amended in two years' time; however, the BRILHO programme is advising on a legal mechanism for being able to secure exemptions earlier.

Zambia

Some tax exemptions do exist in Zambia, but inconsistency in their application has resulted in additional costs for solar companies

Status of import duties and VAT

- Import duty and VAT exemptions do exist for some solar-related products.
- These are implemented through two Statutory Instruments, dating from 2008.
- However, the product list is not up-to-date and is unclear.
- Companies have sometimes identified their products using different codes, and customs officials have also had different approaches to the classification of these products.
- The import duty exemptions are linked to a "Customs Procedure Code", which requires a letter and licence from ERB, the Energy Regulation Board.



2. The Second Schedule to the principal Order is amended— Amendment of Second Schedule

(a) by the insertion immediately after item 7 of the following new item:

8. Energy Saving Appliances, Machinery and Equipment—

(a) Discharge lamps, other than ultra violet lamps (Energy efficient lighting lamps);

(i) Florescent lamps (tubes and bulbs).

(b) Storage water heater, non electric (Solar geysers);

(c) Solar panels;

(d) *Solar batteries*—

(i) lead acid, of kind used for starting piston engines;

(ii) other lead acid accumulators;

(iii) nickel cadmium;

(iv) nickel iron; and

(v) other accumulators.

Previous advocacy to resolve these issues

- Cost-benefit analysis was performed in 2018 to make the case for resolving these issues.
- This resolved a previous gap, securing an exemption for LED lighting, but fell short of securing a more complete review.
- This effort was focused on Ministry of Finance's budget process.

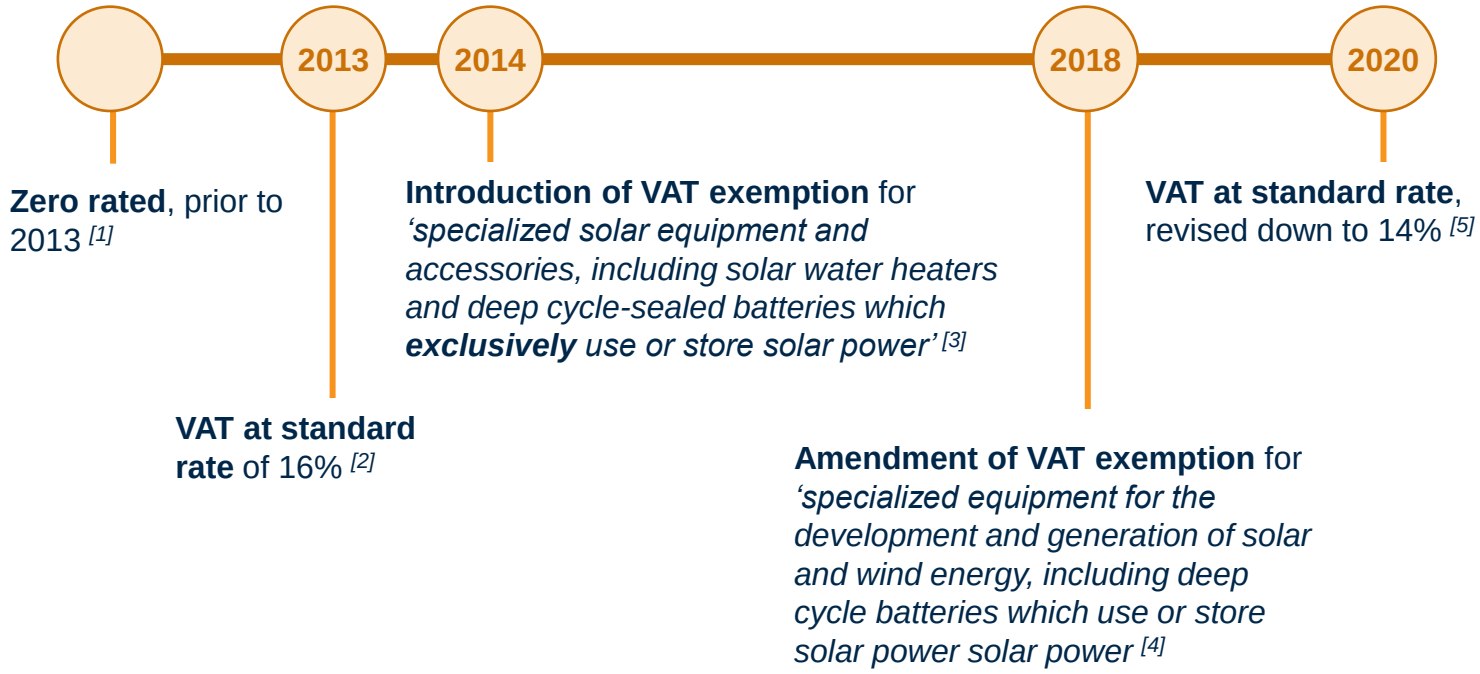
Current advocacy work

- Work is now underway, funded by ACE TAF, to update the two SIs; the aim is for these to be agreed in the New Year.
- Ministry of Energy is supportive, with the focus now being on gaining Ministry of Finance's sign-off.
- A customs handbook is also being developed, to be launched in January, to address the confusion and inconsistency in classification of

Kenya

The Government of Kenya recently introduced VAT at the standard rate of 14% for standalone solar products, after many years of exemptions

- Since 2014, standalone solar products have been exempt from VAT
- Over this period the sector has thrived, reaching almost 2 million unit sales in 2019 with a trend to larger systems bought using the PAYGo business model
- Kenya is often seen as a regional, and indeed global, leader in standalone solar products
- BUT, the Finance Act 2020 has reintroduced VAT at a standard rate of 14%



Sources: [1] Value Added Tax Act, Cap 476 (Repealed), [2] Value Added Tax Act, No. 35 of 2013, [3] Section 2 (a) (5) of the Value Added Tax (Amendment) Act, 2014 (No. 7 of 2014) to provide for inclusion of new Paragraph 45 of Part I, Section A of First Schedule of the Value Added Tax Act, No. 35 of 2013, [4] Paragraph 45 of the VAT Act, No. 35 of 2013 was deleted and substituted by providing the new paragraph 45 in the VAT Act, [5] Deletion of paragraph 45 of the VAT Act, No. 35 of 2013

Kenya

KEREA has been deeply involved in advocacy and mobilising the sector to engage with policy makers – with mixed degrees of success and some key lessons learned!

- Surveys carried out with off-grid solar companies make clear the new introduction of taxes is seen as a bigger threat to sales than COVID-19
- Almost all companies report that they will pass the tax fully on to customers, and expect both a decrease in sales and an uptick in complaints
- It will seriously affect ability to meet targets to reach underserved counties, e.g. in the KOSAP counties
- So, despite an active and engaged association and data from industry, why was the case not persuasive?
  - Ministry of energy is convinced – they do not need to be further persuaded
  - Navigating the links to the Committee on Finance and Planning is harder. Lack of a champion for solar/off-grid electrification
  - Presenting the case not from a "company" perspective about sales, or even a "customer" perspective about access, but making it speak to the concerns of Treasury, which is about economic activity, employment creation, fiscal revenues etc Capacity to prepare a strong case.
  - Timing was not perfect – public finances stretched due to effects of COVID-19 pandemic
- **Key lessons learned:**
  - Knowing your **target audience** is key – make the case from their perspective
  - **How you present the evidence** is as important as the evidence itself
  - Know the timelines, and use the most effective communications channel at the right **strategic times** to influence decisions
  - Be **specific** in what you are asking for and how it should be implemented

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