

Advocating for VAT and duty exemptions for off- grid solar

EAST AFRICA – DAY ONE



- [PLACEHOLDER FOR GOGLA INTRODUCTION]

Your trainers for the next two days



We have been working across the energy sector for nearly 20 years, working with policy-makers and regulators, including on import duty and VAT exemptions for off-grid solar

Our
firms



Our
team



Stephen Nash

- 16 years experience
- Founder of Kuungana
- Energy economist and transactions advisor
- Led CBA of tax exemptions in Zambia



Edward Day

- Founder of Greencroft
- Off-grid expert
- Led Lighting Global's Off-Grid Solar Market Trends Report 2020



Wanjohi Theuri

- Off-grid expert, based in Nairobi
- Advisor to companies across the sector, with a focus on EAC, especially Kenya



Wilbourne Showers

- Energy economist, based in Freetown
- Advised on tax and duty exemptions in Sierra Leone

Objectives of this regional training

- Understand the status of the current legislation on VAT and import duties for solar equipment at the national and regional level as well as their implementation in practice (including current categorization and HS codes).
- Develop an understanding of the national and regional policymaking processes, as well as the key actors related to the taxation of solar products.
- Understand the elements of a good public-private dialogue.
- Understand the processes behind the successful advocacy efforts for removing VAT and import duty exemptions for SHS.
- Design a strategic vision for a national and regional advocacy strategy around exemptions.
- Develop practical tools for implementing advocacy strategies related to VAT and import duty exemptions.
- Know how to monitor advocacy efforts on national and regional level.
- Know how to implement VAT and import duty exemptions as a result of successful advocacy efforts.

Overview of the next two days

Two half-day sessions, covering the basics of import duties and VAT, the key stakeholders when building a case for change, and common implantation challenges

Day One

- Fundamentals of the case for exemptions
- Key stakeholders and decision makers
- Basics of import duties
- Basics of VAT
- Key regional considerations

Day Two

- Quantifying the business case
- Tailoring your message
- Implementation challenges
- Your next steps
- Case study examples

- Do **ask questions** throughout.
- Do **share your experiences**: what has worked and what hasn't worked in your country?

Today's schedule

Today's content is focused on understanding the main arguments for exemptions, and the basics of the taxes that we are trying to secure exemptions for

1h:40mins	GOGLA introduction
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	Introduction and objectives of this training
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	The case for tax exemptions
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	Breakout discussion
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0h:10mins	Short break
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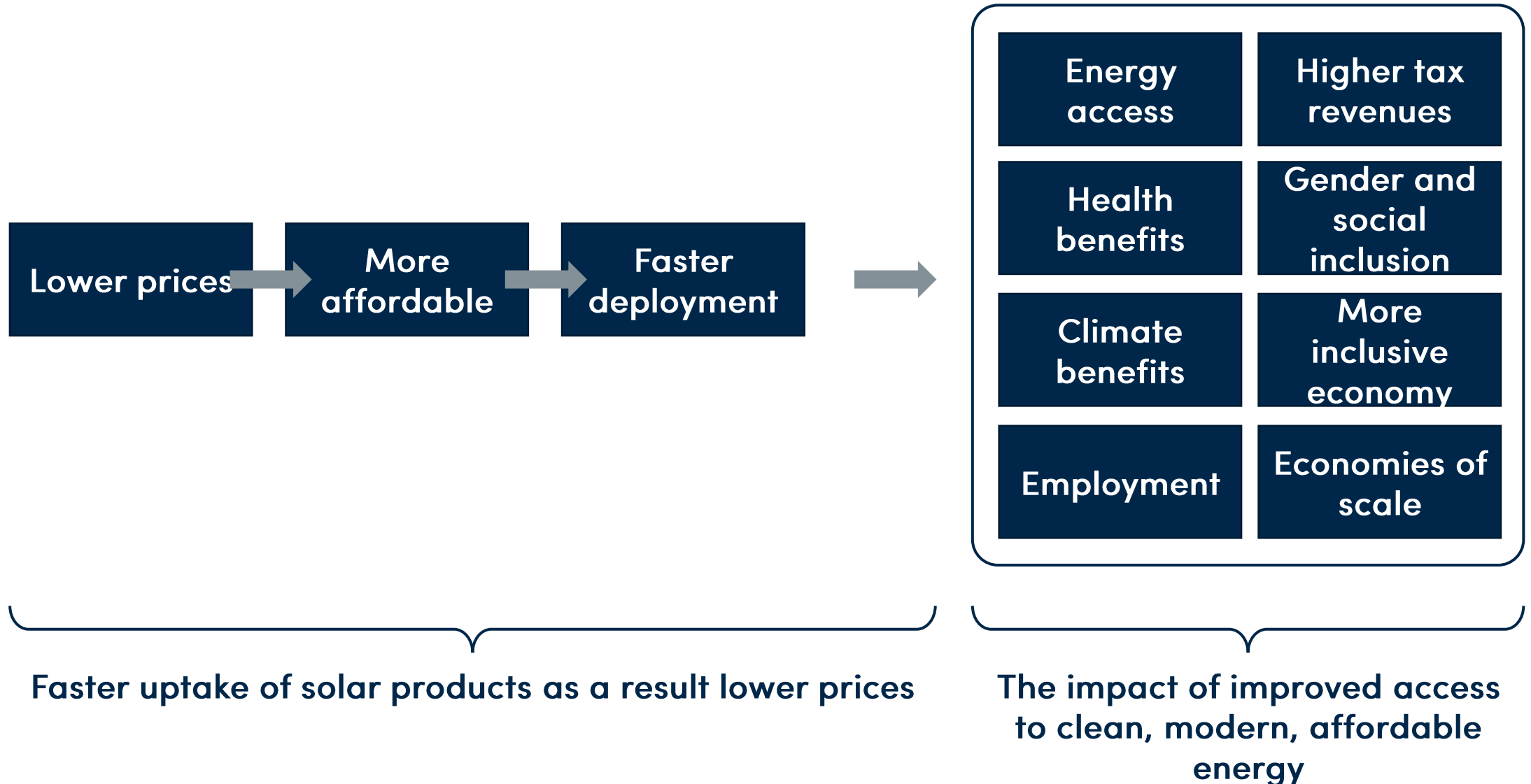
1h:10 mins	Import duties and VAT – the basics
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	Regional customs arrangements and other considerations
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What are the arguments for tax exemptions?



What are the arguments for tax exemptions?



International policy commitments

Most governments have signed up to international policies, delivery of which will be facilitated by faster deployment of solar systems

3 GOOD HEALTH
AND WELL-BEING



*Reduced use of
traditional fuels
can reduce the
incidence of
respiratory
illnesses*

*Benefits can
accrue
disproportionately
to women and
girls*

5 GENDER
EQUALITY



7 AFFORDABLE AND
CLEAN ENERGY



*Accelerated
deployment of
off-grid solar
increases access
to clean energy*

*Reduced use of
fossil fuels can
contribute
towards progress
on NDCs*

13 CLIMATE
ACTION

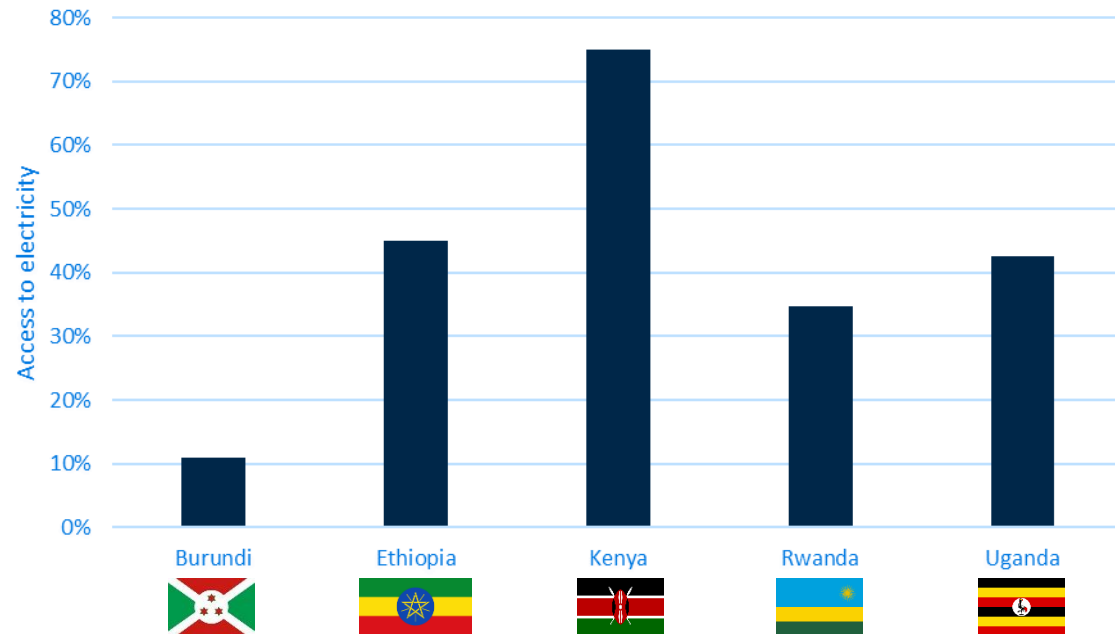


- Many of the benefits highlighted on the previous slide link to the SDGs, which governments have committed to deliver

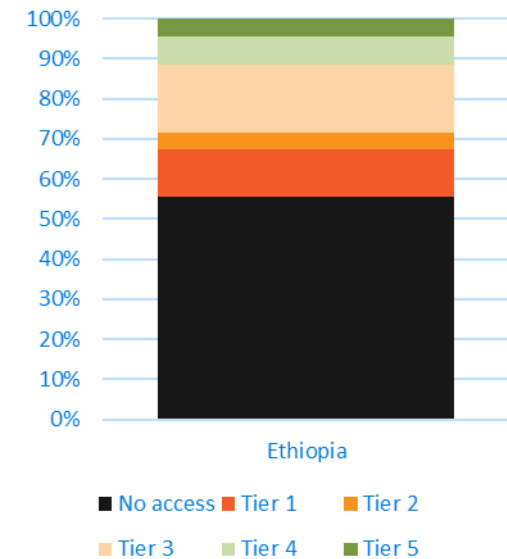
The need to increase access to energy

Across the region, there remains a large energy access gap. This is unlikely to be fully addressed without additional policy interventions

Across the region, access to electricity remains low despite recent improvements in some countries



In countries where more granular data is available (through the multi-tier framework) it is apparent that access that is available is often very basic



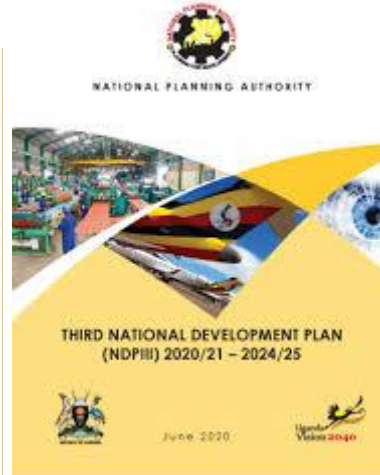
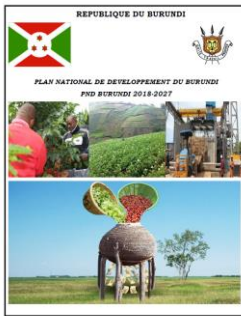
Key message: To meet SDG 7, further policy interventions will be required. The grid is not a viable solution to fully address this gap by 2030, so off-grid solutions will need to play an important role in meeting these goals.

National policy commitments

Most governments have also made ambitious commitments to improve access to energy in national policy statements

National Development Plans

**KENYA
VISION 2030**
*Towards a globally competitive
and prosperous nation.*



Energy sector plans

- Access targets
- Expansion plans – are these realistic, can they be delivered?
- SE4All Action Agendas
- Renewable Energy Action Plans
- Etc.

Parity with other parts of the energy sector

Beyond these benefits...another argument for tax exemptions might simply be to achieve parity with other parts of the energy sector

Traditional



- Often informal sectors: outside the scope of taxes, or taxes not paid.
- Fuels such as kerosene may be exempt from taxes.

On-grid



- Often exempt from VAT, or charged at a reduced rate (but not always!)
- Sector often benefits from other operating and capital subsidies.

Off-grid



- Treated in line with other consumers goods.
- VAT often applied.
- Goods normally imported, so duties often applied.

- Exemptions can be advocated on the basis of creating a level playing field.
- But check you understand the situation in other parts of the energy sector before using this argument!

The fiscal challenge

The immediate push-back against exemptions might be that treasury cannot afford them, especially in the current climate, but there are counter-arguments

- VAT is a broad-based tax and an important revenue raiser.
- Many government budgets are under pressure.
- Government cannot grant extra exemptions without a very strong case.



- Jobs created, which are taxed.
 - Productive use and growth – profits and jobs taxed.
 - Once the sector is mature, taxes can be reintroduced and there will be more to collect!
-
- Ministry of Finance in particular will be focused on these arguments.
 - We will consider quantification during tomorrow's workshop.

Key stakeholders

There are many stakeholders who will need to be engaged if you are (a) to ask for the right exemption, and (b) to successfully persuade government that an exemption should be given

Ministry of Finance	<ul style="list-style-type: none">Needs to balance the budget.Needs to be convinced that the expenditure will pay back and/or achieve other policy goals.	Revenue authority / customs	<ul style="list-style-type: none">Ensure that the proposed exemption can be implemented in practice.Understand likely implementation challenges.
Ministry of Energy	<ul style="list-style-type: none">Interested in achieving energy access goals; can help to convince MOF.But may be sceptical on the role of off-grid and/or see it as a competitor to utility.	Energy regulator	<ul style="list-style-type: none">May be involved in certifying some imports for exemptions; e.g. if customs procedure codes are used.
Other government departments	<ul style="list-style-type: none">If other policy objectives are particularly important / relevant, other departments might be engaged.E.g. Health, education, environment.	Regional trade bodies	<ul style="list-style-type: none">If regional customs arrangements in place.Regional approach required: governments in neighbouring countries might also need to be engaged.
Parliamentary committees	<ul style="list-style-type: none">Ultimately, politicians not technocrats will make the decision.Committees will often make the political recommendation.	Solar companies, other associations,	<ul style="list-style-type: none">Ensure products are correctly defined / classified in any exemptions.Check any current border issues are tackled.
Regional / local government	<ul style="list-style-type: none">In some countries local Chiefs or Governors have significant influence.They often understand the needs of their communities and can act as a bridge.	Customs agents / brokers	<ul style="list-style-type: none">Agents manage the customs paperwork in most cases, and will have a view on what will or will not work in practice.



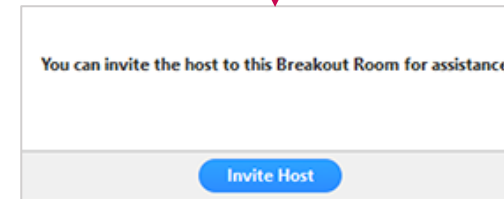
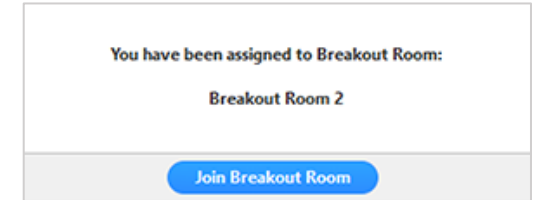
Any
questions?

Breakout session

- Imagine you are in a country where there are no VAT or import duty exemption.
- You will be split into two groups:
 - One group to represent a solar association. What are the **key arguments** you will use in advocating tax exemptions?
 - The other group will represent government. How will you **assess the arguments** presented to you?
- 15 minutes to discuss
- 15 minutes to report back

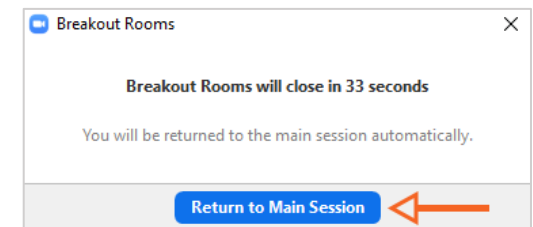
Zoom breakout rooms

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.



What are we lobbying...and when?

Timing is critical: advocacy work needs to be targeted at the right policy-making process, at the right time

- In addition to all the points already highlighted, the timing of engagement with each stakeholder is key:
 - Who are the key decision makers?
 - When can a final policy decision be made? E.g. is there an annual budget procedure that you need to influence?
 - What is the process by which a final policy decision is made?
 - Who are the gatekeepers to that process?
 - Who else might influence the process?
 - When is the last opportunity to influence the policy decision?

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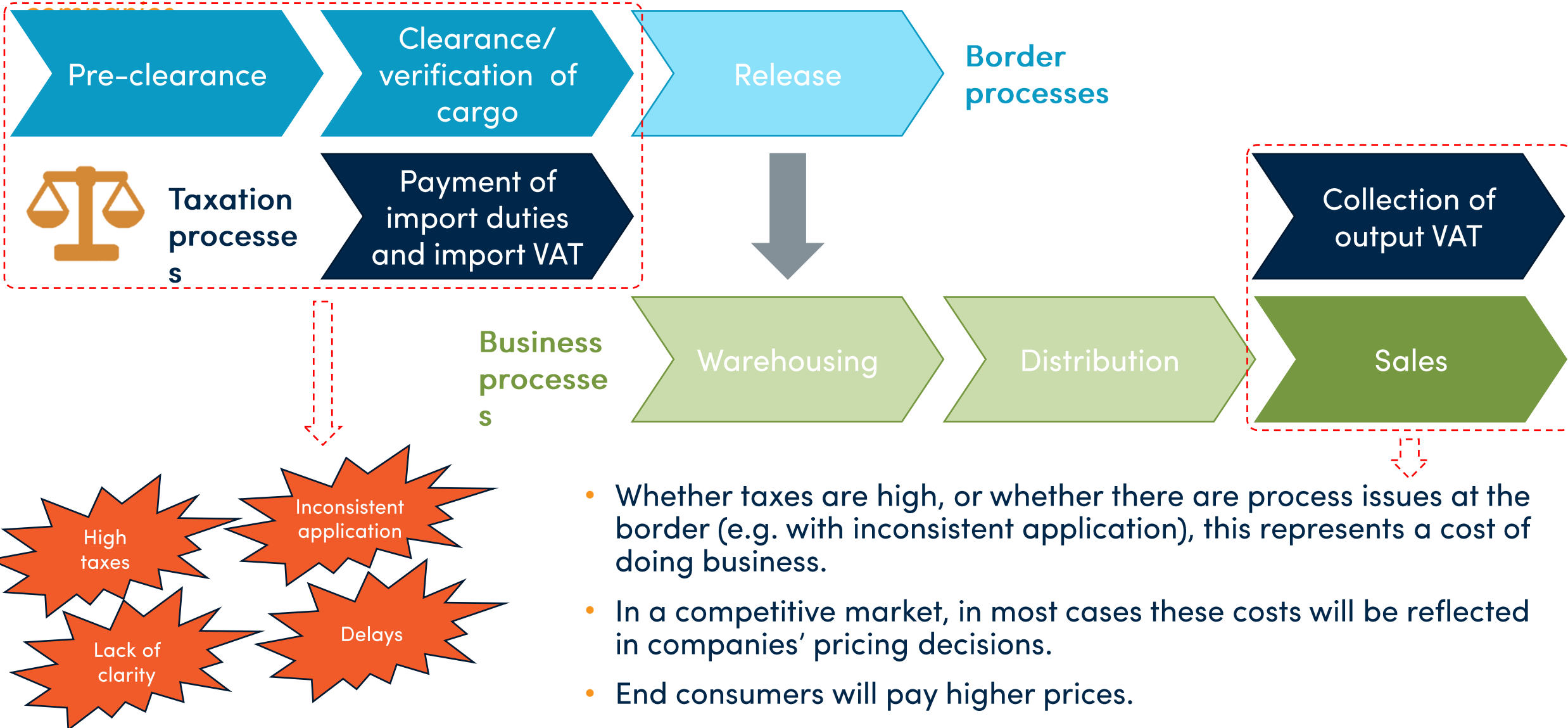
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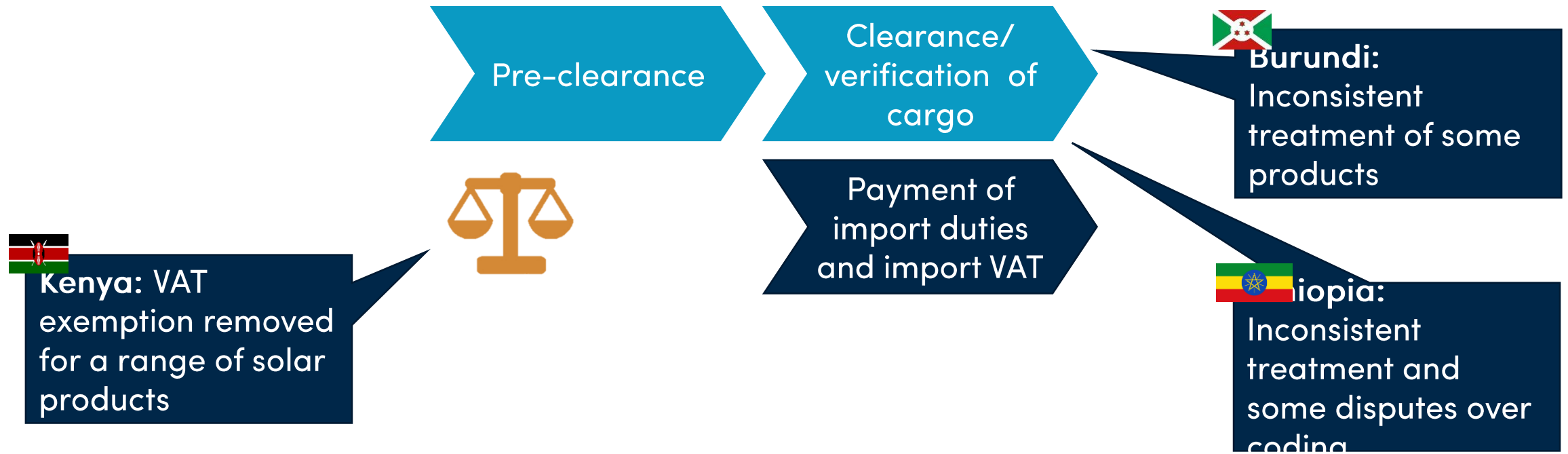
Port-to-customer: an overview of processes

Most of the issues experienced with tax exemptions originate in legislation or in processes at ports of entry, but all expected additional costs will be considered in pricing decisions made by solar companies



Key customs processes and issues experienced by solar companies

In East Africa, there are examples of a variety of different types of issue with customs processes



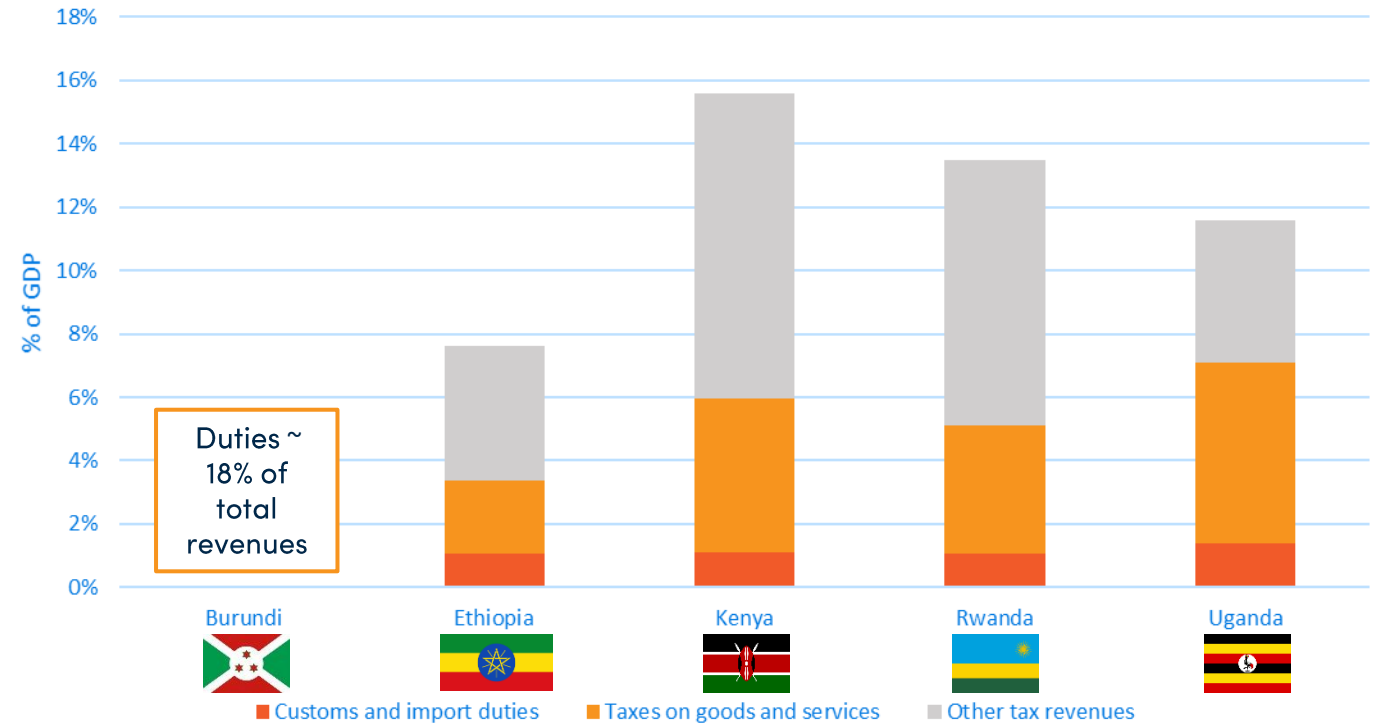
Key message: In most cases, the main issue to be addressed may be securing an exemption in law, but it is important to understand how these exemptions are applied at the border to ensure that you are asking for the right policy intervention.

Tax collection

Import duties are a small (and declining) portion of government revenues globally, but VAT is a very significant portion of revenues

Import duties and VAT as a revenue source

- Globally, import duties account for a small share of revenues.
- In Sub-Saharan Africa, government depend more on duties, largely because total revenues are low as a % of GDP; there is a general lack of broad-based tax collection in many countries.
- VAT is a major source of revenue for many countries' treasuries; it is broad-based and relatively easy to collect.
- In some countries VAT accounts for as much as half of government revenues.








Source: WB, IMF estimates

Key message: Import duties and VAT can represent an important source of revenue in some African countries.

Import duties for off-grid solar in East Africa

Import duties vary both by country and by product, and are not always consistently applied, even within regional customs areas

Country	EAC?	Import surtax applies?	Import duty rate		Solar panel	Li-ion battery	LED light
			SL	SHS			
Burundi 	✓	x	25%	25%	25%	25%	25%
Ethiopia 	x	10%	x	30% / x	x	x	30%
Kenya 	✓	x	25%	x	x	x	x
Rwanda 	✓	x	x	x	x	x	x
Uganda 	✓	x	10% / x	25% / x	x	25%	25%

Notes:

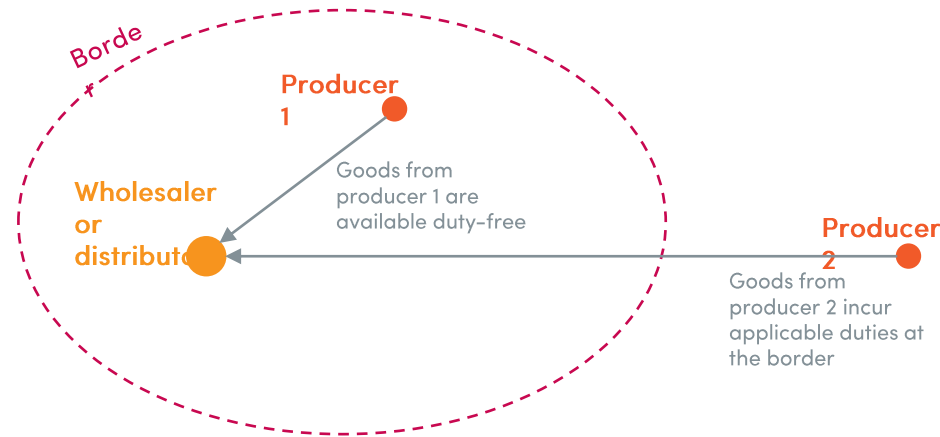
- Burundi: All goods used for renewable energy use and finished goods taxed. Not clear if this duty is 25% or 30%. Not in line with EACCMA.
- Ethiopia charges import duty for SHS > 300Wp. Lighting Africa (LA) certified products sometimes get exemptions whereas non-LA products normally pay duty.
- Kenya: Conflicting information on duty exemptions. Some importers are charged while others are not. Should follow EACCMA amendment on 30th June 2020 where only lanterns should be taxed.
- Rwanda: The law seems to have changed and an application for exemption needs to be made. Ambiguity.
- Uganda: charges import duty for SHS > 10Wp. Ambiguity.
- Some countries have additional charges. For instance, Ethiopia has surcharge of 10% for items that are not duty exempt. Uganda charges a 1.5% infrastructure levy for all imports as a means of financing their railway infrastructure project.
- HS tax codes for items are largely consistent between countries. However, they may not be easy to locate in the respective customs'

The purpose of import duties

Import duties can perform an important role in encouraging domestic production

Import duties as a tool to encourage domestic production

- Sometimes, import duties can be used to encourage the use of domestically sourced goods; for example, as part of an import substitution strategy.
- A wholesaler buying a generic good might prefer a local product, which does not attract duty, versus incurring duty on an imported product.



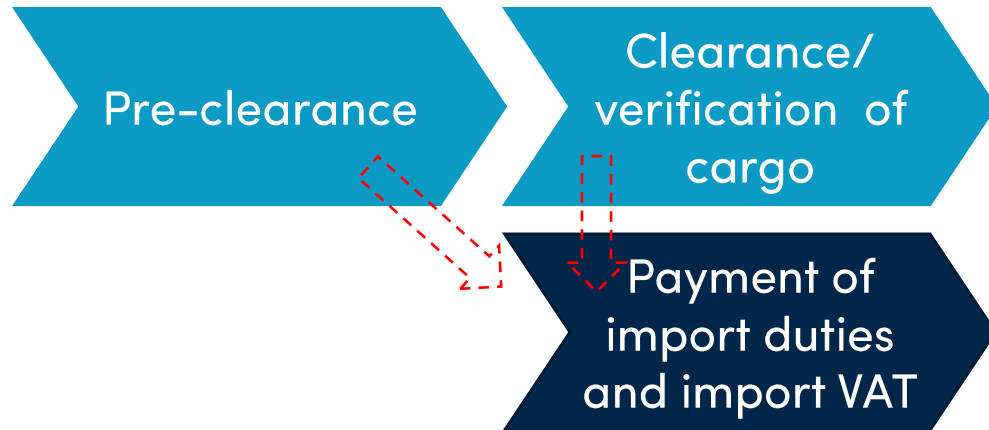
- This rationale does not make sense in industries where there is no local production today.
- But it can sometimes be an argument for differentiating between complete products versus parts; for example, if there is are nascent local assembly operations.

Paying import duties

Import duty calculations are simple, but determining the inputs to the calculation is not always simple



Timing of payment



Sometimes payment is processed in advance, as part of pre-clearance



Sometimes payment is processed at the border






Calculating the payment due

(u) Other Charges	(v) Currency Code	(w) Exchange Rate	(x) CIF Value	(y) Customs Value	
41. REVENUE INFORMATION				43. Attached documents	44. Preceding Documents Ref.
(aa) Tax Type	(bb) Tax Base. / Value	(cc) Rate	(dd) Tax Due	45a. Code	45b. Number
i					
ii					
iii					
iv					
v					
(ee) Total Tax due on this item					
46. SUMMARY TOTALS	i	ii	iii	iv	v
This Page					
Other Pages					
Totals					
48. Grand Totals (Duties, Taxes and Other charges)				FOR OFFICIAL USE	
49. Declaration				PROPER OFFICER	CASH/CHEQUE
I/Wethe undersigned of (Company name)				Amount Paid	
Being the Agent/Principal of (Importer/Exporter) do hereby declare that the information and particulars declared herein are true and complete.				Receipt Number and Date	
Signature and Stamp..... Place..... Tel/Fax.....				Cashier's Signature and Stamp	

- Duties are calculated by multiplying the value of goods by the applicable tax rate.
- Value is normally the price at which goods are sold, but can be more contentious if the transaction is inter-company.
- The applicable tax rate is determined with reference to internationally agreed product codes.

VAT on off-grid solar in East Africa

Some countries have VAT exemptions in place for limited off-grid solar products, but many countries charge VAT on all solar products

Country		VAT duty rate			Solar panel	Li-ion battery	LED light	VAT on grid electricity
		SL	SHS					
Burundi		18%	18%		18%	18%	18%	18%
Ethiopia		15%	15%		15%	15%	15%	×
Kenya		14%	14%		14%	14%	14%	14%
Rwanda		×	×		×	18%	18%	18%
Uganda		×	×		×	18%	18%	18%

Notes:

- Kenya's VAT rate was 16% but was reduced to 14% as a result of the pandemic.
- Rwanda: The law seems to have changed and an application for exemption has to be made. Ambiguity.
- Uganda: VAT exemptions are on selected solar items such as panels, and charge controllers and inverters (case by case basis). 1.5-3 Wp products with a single light and mobile charging are subject to 18% VAT. Ambiguity.
- Some countries may have different VAT and/or duty rates for complimentary products. For instance, Uganda has different rates for LED bulbs and LED bulb holders. This may be confusing for a new developer/company.

VAT exemptions and zero-rating

A VAT exemption is not the same thing as zero-rating. Normally zero-rating is preferable.

VAT

exemptions

- If a product is exempt from VAT, the tax is not added to the price paid by end consumers.
- However, a company that only makes exempt supplies cannot register for VAT.
- You cannot reclaim any VAT charged on the inputs to VAT exempt goods.

Zero-

rating

- If a product is zero-rated, it remains within the scope of VAT; VAT is charged at a rate of 0%.
- This means that companies still have to register for VAT and then are able to reclaim input VAT.

Key message: If most inputs are either zero-rated or exempt from VAT, the difference between zero-rating or an exemption on outputs is likely to be small; but zero-rating is generally preferable as it allows for input VAT to be reclaimed.



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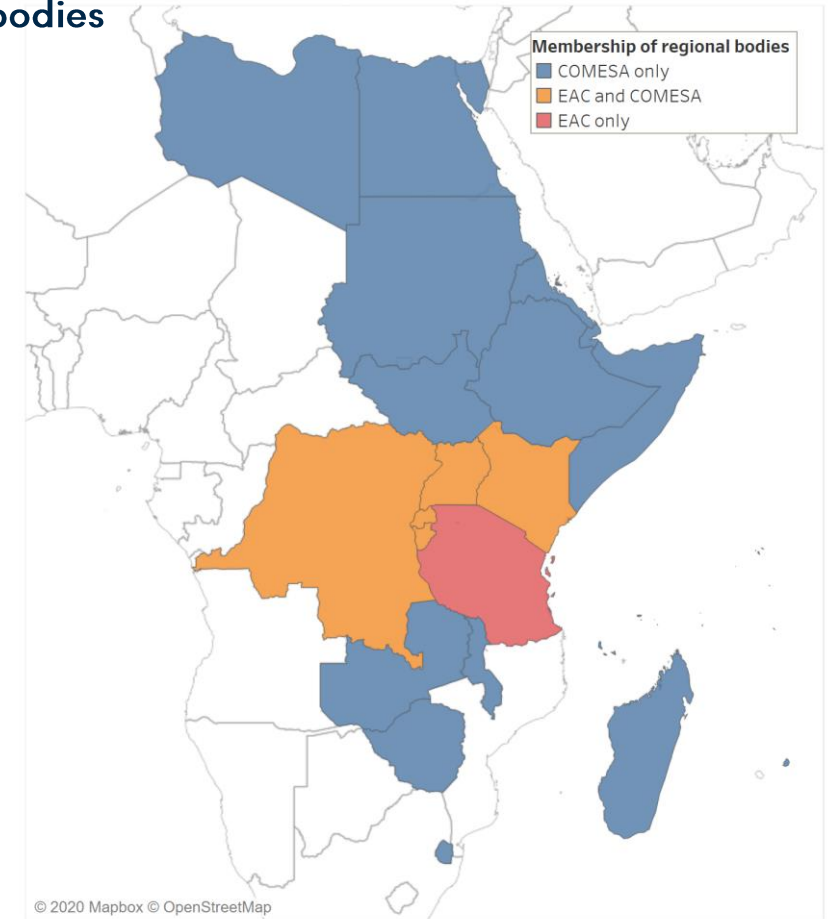
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Regional trade

There are trade arrangements in place across Africa, but only a small number of these result in meaningful integration of trade and customs processes

- Regional trade arrangements can have a wide range of different objectives, including:
 - Promoting regional trade
 - Creating a customs union
 - Enhancing competitiveness
 - Creating a single market
- Some or all of these may apply for each trade arrangement.
- In Sub-Saharan Africa (SSA), EAC and SACU are the oldest and most developed trading areas.
- The new African Continental Free Trade Area (AfCFTA) seeks to cover the whole of Africa.

Regional trade bodies



Regional stakeholders

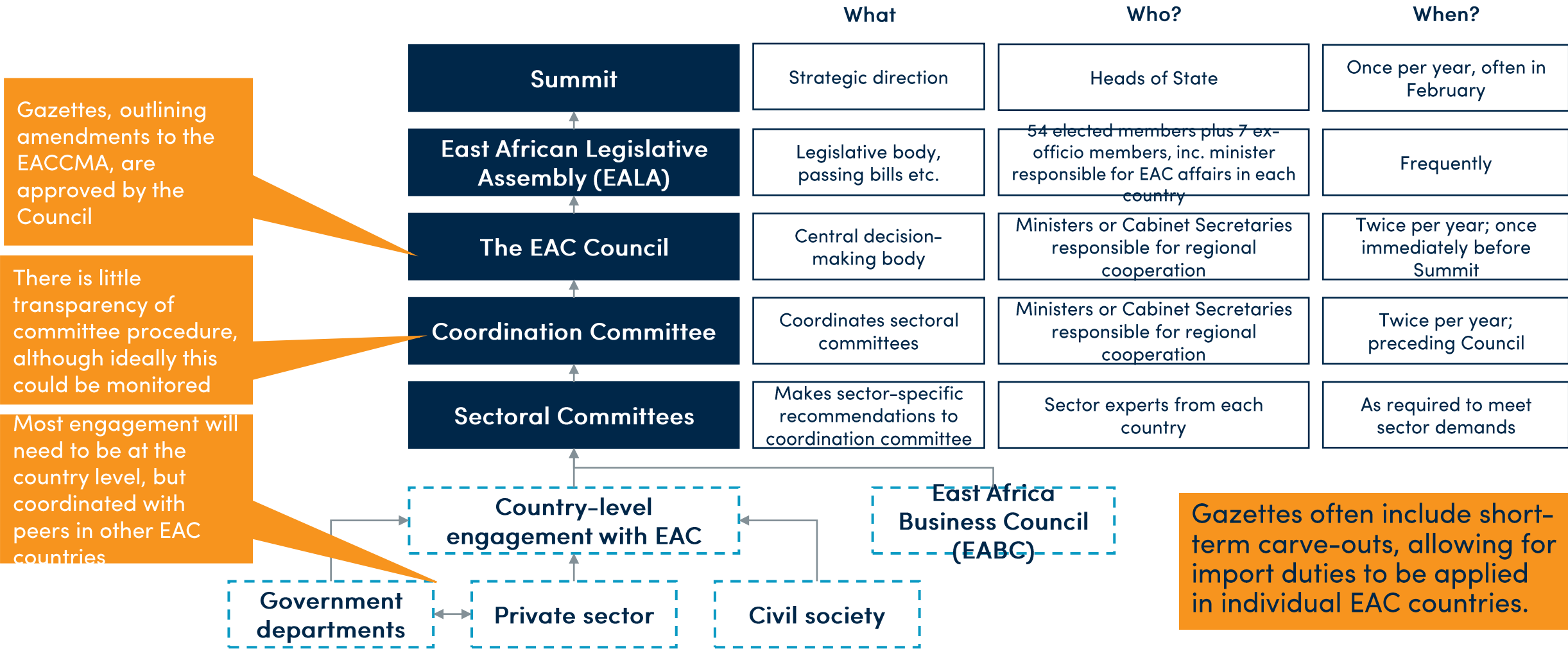
The existence of regional trading arrangements has an impact on the stakeholders that advocacy should be targeted at

Advocacy issue	National market	Regional market
Tariff rates / exemptions <ul style="list-style-type: none">Advocating import duty exemptions for solar products.	<ul style="list-style-type: none">Primary stakeholder likely to be Ministry of Finance.Supportive lobbying of other interested ministries, e.g. ministry, economic development.	<ul style="list-style-type: none">Duty rates agreed at regional level: e.g. EAC Secretariat, SACU Tariff Board.Still normally driven by member states' institutions, <u>but</u> will need them <u>all</u> to be supportive of change.
Implementation issues <ul style="list-style-type: none">Clarity on HS coding, e.g. creation of new 8/10-digit codes.Other process improvements.	<ul style="list-style-type: none">Primary stakeholder will be the National Revenue Authority (NRA), or customs, if separate.Support from Ministry of Finance still likely to be helpful.	<ul style="list-style-type: none">Changes likely to be agreed at regional level.National engagement is still likely to be important, although on process issues more authority might be delegates to regional actors.

Key message: Engagement with national institutions is still likely to be critical, even with a regional trade agreements. But understanding who the regional stakeholders are and how the agreements are governed will be important to achieving the desired result.

Decision making in the East African Community (EAC)

EAC decisions are finalised through the regional institutions. Regional policies require consensus, which mostly needs to be forged through engagement country-by-country





Any
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