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POLICY SUPPORT FOR GREEN BUSINESS

Business tax policies and labor policies to support green business-
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Business Tax Policies

Green taxation and its principles.

How fiscal and pricing instruments can support greening of MSMEs in Africa.



Business Tax Policies

Introduction

- A country's/regions/ tax regime is a key policy instrument that may negatively or positively influence investment, innovation and growth of industries and sectors.
- Governments and Policy makers are therefore encouraged to ensure that their tax system imposes an acceptable tax burden that can be accurately determined, and which keeps tax compliance and tax administration costs in check.
- A central challenge for policy makers aiming to encourage environmental sustainability is carefully weighing the relative advantages and disadvantages of alternative tax policy choices that would be attractive to green businesses.



Taxation Framework Conditions

- Political and monetary stability - Businesses and Investors require stability for planning purposes.
- State of infrastructure - The state of the host country's infrastructure covering transport, telecommunications and other services important to business
- Simplicity and cost of compliance - The tax system should display a high degree of transparency and clarity
- Tax system stability - The main body of the tax law should remain relatively stable over time





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Green Taxation Principles



Defn: *"Those whose tax base consists of a physical unit (or similar) of some material that has a negative, verified and specific impact on the environment"*.

- Green taxes are designed to tax behavior that is harmful to the planet's health as well as reward practices that help sustain the environment.
- Main benefits of Green Taxation Principles:
 - They internalize the negative externalities.
 - They promote energy saving and the use of renewable sources.
 - They discourage anti-ecological behavior.
 - They motivate companies to innovate in sustainability.
 - They generate revenue for governments, allowing other taxes to be lowered or environmental projects to be carried out.
 - They protect the environment.





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History of Green Taxation in Africa



- 1970's, the response was dominated by the use of cultural practices that operated largely on indigenous knowledge, sanctions, taboos, customs, traditions, and spirit guardians and was in particular relevant for forest, water, and wildlife protection.
- The 1980s and 1990s brought about the introduction of command and control instruments where standards and related policies such as bans and zoning were used for environmental management.
- From Late 1990s, countries started turning their attention to the use of economic instruments including environmental and green taxes policies alongside the implementation of command and control instruments.
- By the years 2015 African countries that had introduced Green Taxation included South Africa, Uganda, Kenya, Morocco, and Ghana.





How Fiscal and Pricing Instruments Support Greening of MSME's in Africa



- Carbon Pricing
- Water Pricing
- Emissions Fees
- Congestion Pricing
- Feed in tariffs
- Subsidies
- Tax exemptions
- Tax rebates





Labor Policies

How current green-growth policies support employment and labor markets?.



Labor Policies Introduction

- According to the World Bank (2013), 200 million people, most of whom are youth, are unemployed and actively seeking jobs. They further estimate that to maintain the current employment rates, 600 million jobs needs to be created over the next 15 years.
- Statistics and literature is clear as shown in Table 1, that MSMEs are critical to the contribution to both employment level and employment growth.
- Enterprises considered MSME's account for more than 50% of total net employment creation with variations by country income groups as well as by region.



Table 1: Median Contribution of MSME's sizes to Employment Creation by Income Group and Geographical Group

Country Group	5 to 19 employees	20 to 99 employees	100 and more employees
Income Group			
Low Income	36%	30%	23%
Lower Middle Income	22%	32%	48%
Upper Middle Income	23%	25%	43%
High Income	22%	37%	33%
Geographical Group			
Eastern Europe and Central Asia	19%	33%	45%
East Asia and the Pacific	20%	52%	35%
Latin America and the Caribbean	26%	31%	43%
Africa Region	31%	29%	26%
South Asia Region	41%	56%	4%



How Green Business Affects Labor and Employment in MSME's

- Trends in studies indicate:
 - First, there is evidence from OECD countries, including aggregate statistics that shed light on specific sub-sectors and on impacts of certain green policies on labor markets in these countries.
 - Second, there is documentation from a selected number of developing countries showing the employment gains at initial stages of transformation as green businesses emerge.
- When trying to measure the effect of Green business on employment, various dimensions need to be taken into account:
 - Jobs that are newly created in greener MSME's
 - Jobs that emerge due to spillover effects in non-green sectors.



- Green Businesses policies may also negatively affect labor absorption in non-green businesses.
- The International Labor Organization (ILO) has developed a Decent Work Agenda that distinguishes four objectives that also address quality of employment (ILO 2017):
 - promoting jobs by boosting investments,
 - skills development,
 - new job creation and
 - sustainable livelihood;

Guaranteeing rights at work; extending social protection by ensuring equal and safe working conditions for men and women, ensuring a balance between working hours and rest and access to healthcare; and promoting social dialogue between employees and employers.



Policy Recommendation

- The first step in to governments' labor policy creation policies is to identify the sectors that strongly affect the growth of the labor.
- Foremost, providing an enabling market environment – in terms of providing appropriate market infrastructure and regulatory stability and flexibility – is key for innovation of the green businesses therefore creating opportunities for employment.
- They may engage in creating and strengthening inclusive and green innovation opportunities. This involves incentives and making pricing mechanisms work for poverty alleviation and environmental sustainability.
- Policy-makers and donors can support inclusive and green innovation ecosystems that enable and facilitate the interaction and cooperation between different kinds of organization to effectively overcome the multiple challenges and therefore increase the jobs that emerge through the spillover effect.





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Thank you!

