

Towards a Green Budget: Expanding Zambia's Domestic Resource Mobilisation through a Green Economy

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1. Introduction

The green economy provides an alternative route for economic growth and development. In a green economy, opportunities and employment can be created through public and private investments into economic activities that alleviate carbon emissions, promote efficient use of energy and resources including reduction in loss of bio diversity and ecosystems. The new dawn¹ government created the Ministry of Environment and Green Economy. The Ministry notes that a green economy could promote opportunities and choice among poor people.² The creation of the Ministry indicates Zambia's efforts to transition to a green economy or at least embrace it. However, this transition presents a strong need for resources. It then becomes critical for government to upscale Domestic resource mobilisation (DRM). DRM is the foundation of sustainable development. Sustainable Development Goal (SDG) 17 underscores the need to mobilise revenue for developing countries including strengthening capacities for revenue collection.³ With sufficient revenue, government secures more leeway to support the climate change adaptation agenda and generally the transition to a green economy.

In the past decade however, Zambia has seen a significant accumulation of public debt. Public

external debt stands at USD 14.7 billion,⁴ while debt to GDP ratio stands at 170.7 percent.⁵ This situation has further been exacerbated by the Covid-19 pandemic which saw Zambia record a depression for the first time since 1998.⁶ Real GDP contracted by an estimated 4.9% in 2020, after growing by 4.0% in 2018 and 1.9% in 2019.⁷ The major implication of this debt crisis has been the adverse impact it has had on the fiscal space.

Debt service has increased significantly. External debt allocations have increased significantly from 6.8 percent of the total budget in 2016 to 30 percent of the same in 2022.⁸ This limits government's ability to adequately support climate resilience as debt service continues to occupy a huge proportion of the national budget.

Limited fiscal space for climate action creates more room for undesirable implications on economic development including human development such as social inequalities. It also means that a transition to a green economy, and let alone a just one, becomes a farfetched dream. With the aforementioned, it then follows that government moulds a different strategy to upscale domestic resource mobilisation capacity.

2. Social and Economic challenges due to climate change impacts

In Zambia, climate change can no longer be ignored as its effects become more visible each year. Zambia has experienced an escalation in the frequency and intensity of seasonal droughts,⁹ rising temperatures, dry spells, floods,¹⁰ changes in the growing season, crop failure, water insecurity, reduction in fish stocks, increased health risks including mounting pressure on ecosystems.

Firstly, the impact of climate change presents social challenges. While everyone is affected by impacts of climate change, the most vulnerable in the communities bear the brunt of the consequential burden. Low income households, women, youths, children, people with disabilities and the elderly stand remain highly vulnerable in the midst of the crisis. This is due to their limited capacity to prepare for disaster and to recover from it.¹¹ These demographics face grave obstacles in access to finance, insurance¹² including information. This therefore becomes an impetus for social inequality.

Secondly, climate change has the potential to reverse economic gains. Its impact on sectors such as energy, tourism and agriculture which are critical to propelling the economy has the ability to stunt economic growth. Zambia has in this past decade experienced challenges in the energy sector, for example, due to low rainfall,¹³ Zambia experienced power shortages. Mining, manufacturing and many other economic activities important to driving production in Zambia depend on electricity. This implies that shortage of power leads to reduction in productivity.

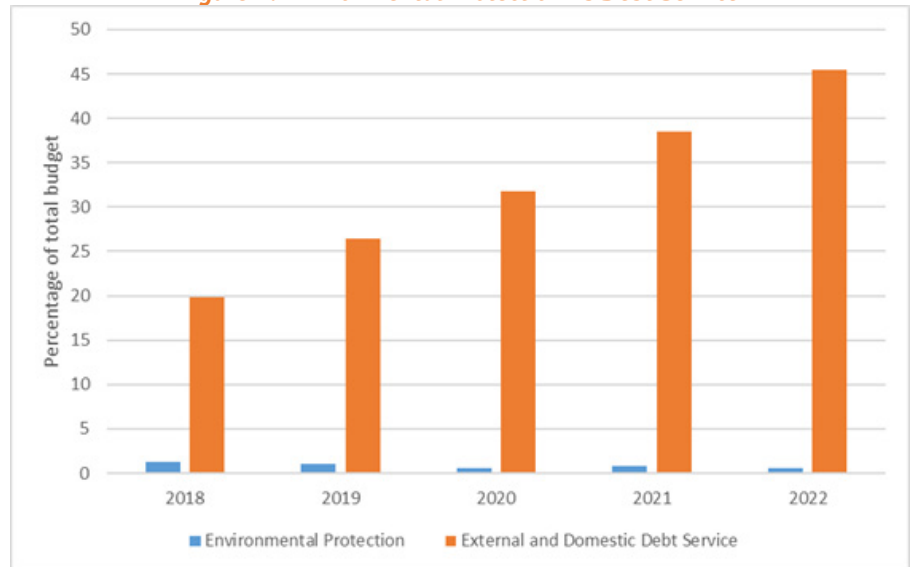
3. Implications of limited fiscal space on climate resilience efforts and the transition

The challenges shared above demand adequate public investment into climate adaptation with a strategy for just transition to a green economy. However, as previously noted, Zambia is faced with a debt crisis with the majority of the fiscal space occupied by debt service. During the last five years, debt service has continued to rise at the expense of climate resilience building. Figure 1 below shows the share of external and domestic debt service as a percentage of the total national budget relative to environmental protection in the last five years.





Figure 1: Environmental Protection Vs Debt Service



Source: National Budget Speeches (2018-2022).¹⁴

As indicated in the figure above, the fiscal space has been dominated by debt service. In 2022 alone, debt service claimed about 45 percent of the total budget while environmental protection claimed a mere 0.6 percent. This insinuates that more can be done to build resilience, however, the debt crisis remains a huge impedance in doing so. Further, it shows a lack of preparedness for a shift to a green economy and let alone a just one. With limited capacity to build resilience, the social and economic challenges discussed previously stand to degenerate. This therefore is a clear justification for the need for government to upscale revenue mobilisation in a sustainable way.

4. Options to increase the fiscal space from a green perspective

Most recommendations to expand a nation’s fiscal space border around limiting existing financial flows, call for progressive tax rates and formalising the informal sector. While these are reasonable recommendations, perhaps what is not being explored is how generate revenue from a green perspective. This paper proposes some of the following options.

4.1. Plastic Tax

It is important to note that the government has made some strides in managing plastic waste by placing more responsibility on manufacturers. Through a statutory instrument, government in 2018 banned the use of plastic carrier bags and other plastic-related materials below thirty microns in thickness.¹⁵ However, this may not be solve the problem entirely. The Zambia Environmental Management Agency indicated that challenges remain regarding enforcement of the ban.¹⁶ Considering this, it

is highly recommended that government imposes a plastic tax. Not only will it address pollution, it will also act as a revenue mobilisation tool policy.

4.2. Debt for Nature Swap (DNS)¹⁷

DNS is not a new concept is not a new concept. It dates as far back as 1987 when Bolivia became the first nation to receive debt forgiveness in exchange for commitment to conservation. About USD 650 000 of Bolivia's debt was cancelled while the Bolivian government committed to setting aside 3.7 million acres of land for conservation purposes.¹⁸ It is imperative for Zambia to present this proposal while negotiating with creditors and especially with China who is the largest creditor. If successful, this releases some pressure off the fiscal space creating more revenue for climate resilience and social spending.

4.3. Carbon Tax

Government must place a deliberate focus to ensure that the tax revenue collected on carbon emissions goes into funds that support environmental protection as opposed to control 99. This will be key in securing funds for government spending agencies and ministries to conduct different programs on environmental protection. This is key in building climate resilience.

4.4. Promoting green jobs and businesses

It is important for public and private investment into ventures that benefit the environment or conserve natural resources. These jobs can cover multiple sectors such as transport, manufacturing, construction and more. Government must therefore, offer tax incentives to support green businesses in these sectors so as to promote green jobs and support environmental protection.

Zambia offers a range of corporate income tax rates, 25 in total, which range between 0 and 40 percent.¹⁹ Through this, corporations are able to benefit from some corporate income tax incentives if they qualify. Zambia can mainstream climate change in this arrangement, to attract more green businesses. The government can be able to generate revenue once a robust green business sector is created.

Endnotes

1. *The government of the republic of Zambia elected into power in August 2021*
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