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Climate change sensitive tax policy in senegal

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ABSTRACT

Today, humankind continues to face numerous environmental challenges, such as desertification, soil degradation, flooding, climate change, the deterioration of biodiversity, the pollution and scarcity of water resources, air pollution, coastal erosion and so on. This situation has worsened with global warming, whose negatif impact on life and living conditions is beyond measure.

In other words, climate change has become a challenge for all economies, especially those of low-income countries. Indeed, rising temperatures, rising sea levels and the recurrence of flooding have become established risks.

This alarming situation has led the international community to develop several environmental policy instruments through multilateral agreements on climate change. These include the United Nations Framework Convention on Climate Change (UNFCCC), the Vienna Convention, the Montreal Protocol and its various amendments for the protection of the ozone layer, the Kyoto Protocol and the Paris Climate Agreement. Senegal has signed and ratified all these texts, the aim of which is to reach a global consensus to protect populations and their living environment through the promotion of sustainable development.

Considered an essential tool in the fight against inequality, many economists also see taxation as an effective lever in the fight against climate change. The need to combat global warming appears to be a point of consensus in Senegal, in view of the phenomena appearing in the world that are increasingly worrying for populations.

According to the Organisation for Economic Co-operation and Development (OECD), "environmental taxation is defined as the set of taxes and charges whose base is a pollutant or a product or service that deteriorates the environment or withdraws natural resources".

In Senegal, the scope of environmental taxation provided for in the General Tax Code (CGI) can be divided into three (3) categories:

- ✓ tax credits aimed at guiding companies investment choices;
- ✓ tax incentives designed to influence behavior in favor of the environment;
- ✓ pollutant-based taxes.

This article will discuss tax policy and the use of budget allocation to combat the negatifs impacts of climate change in Senegal.

INTRODUCTION

In Senegal, climate change is having a significant impact on the biophysical environment and the various socio-economic sectors. Indeed, all the key activities of our economy are directly or indirectly affected by this phenomenon, the consequences of which risk compromising the country's development efforts and plunging populations into poverty and food and health insecurity.

On the basis of the analyses carried out, the potential climatic risks in Senegal can be summarized as follows: greater inter-annual irregularity in rainfall, higher temperatures, a drop in surface water resources, a reduction in alluvial aquifers, the advance of the sea and the retreat of wetlands, leading to a loss of biodiversity, and coastal erosion.

A number of expert reports have now established that, in the years to come, climate vulnerability will exacerbate the challenges already facing Senegal, namely coastal erosion, deterioration of the living environment, loss of biodiversity and so on. Similarly, our economy remains highly sensitive to the effects of climate change, particularly in key sectors such as agriculture, livestock breeding, fishing, tourism and infrastructure.

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In Senegal, the scope of environmental taxation set out in the General Tax Code (CGI) can be divided into three (3) categories: (i) tax credits designed to influence business choices; (ii) tax incentives designed to influence behavior in favor of the environment; and (iii) pollutant-based taxes.

I. Tax credits to guide companies' investment choices

Article 253 bis of the French General Tax Code (CGI) has introduced a tax reduction mechanism designed to promote the use of renewable energies. Companies manufacturing locally and exclusively goods intended for the production of renewable energies, as listed by

interministerial decree, as well as companies producing such energies, are authorized to deduct 30% of their taxable profits when calculating their corporate income tax liability.

II. Tax incentives to encourage environmentally-friendly behavior

The tax system provides incentives such as tax deductions and reductions for companies investing in the acquisition of anti-pollutant equipment and the promotion of wind energy. Article 10 of the General Tax Code allows companies to apply accelerated depreciation to new machinery and equipment that meets the following two conditions:

- they must be used exclusively for industrial manufacturing, handling, transport, tourism, fishing, breeding and farming operations, or they must fulfil an anti-polluting function, provided in the latter case that the equipment has been approved by the relevant ministerial department;

- be normally usable for at least five (5) years. In addition, in accordance with article 241 of the CGI, individuals liable for income tax on their industrial and commercial profits, their agricultural profits or their profits from non-commercial professions, and who make investments in Senegal in installations designed to use solar or wind energy, may benefit, at their request and under defined conditions, from a reduction in the amount of the said tax for which they are liable.

The amount of the income tax reduction to which the aforementioned individuals are entitled is equal to 30% of the sums actually paid for the eligible investments.

However, the reduction granted in respect of taxation for a given year is limited to 25% of the amount of income tax assessed for the previous year. If, as a result of this limitation, a deductible balance remains from the taxation of a given year, this balance can be carried forward to subsequent years.

Lastly, companies that receive capital grants from the government to finance investments in solar or wind energy, are not eligible for the above benefits.

III. Pollutant-based taxes

In keeping with the environmentalist vocation of Senegal's tax system, the CGI includes specific taxes on goods or materials whose negative externalities have harmful effects on the environment:

a. Tax on passenger vehicles

Under article 439 of the CGI, this tax applies to passenger vehicles with a horsepower of 13 or more. The aim of this measure, which excludes public transport vehicles, is to tax, in

accordance with the “polluter pays” principle, the owners of large-engined vehicles that emit environmentally toxic gases.

b. Tax on petroleum products

The tax on petroleum products instituted by article 443 of the French General Tax Code (CGI) applies to super fuel, regular gasoline, pirogue gasoline and diesel.

By imposing such a tax, the Senegalese legislator intends to contribute to the preservation of the stock of petroleum resources which is extremely important for the economy and national life, and at the same time to reduce the harmful impact of its abusive use on the country's environment.

c. Tax on plastic bags

The article 444 bis of the General Tax Code institutes a tax on non-refundable plastic bags, packaging and wrapping. The tax is levied on bags, pouches and cones made of plastic or similar materials, produced in or imported into Senegal, with or without contents. It also applies to bottles and other non-reusable packaging made of plastic or similar materials, with or without contents, produced in or imported into Senegal.

IV. Climate-sensitive budget allocation policy

The use of an efficient budgetary policy in Senegal makes it possible to fully combat, or at least curb, the negative impacts associated with climate change. The public policy objectives set out in the sectoral programs reflect the pursuit of strong moderation in the growth of public spending. However, it must be stressed that climate change is a cross-cutting issue, affecting virtually all economic, social and environmental sectors. The focus will be on a few sensitive sectors, with their projects and programs involving adaptation or mitigation, or sometimes both.

V. Climate-sensitive transport projects and programs

The Government of Senegal is fully committed to promoting a sustainable and environmentally-friendly future. Thus, the State of Senegal is determined to transform our public transport systems into greener and more sustainable solutions. Public transport plays a crucial role in reducing greenhouse gas emissions, combating urban congestion and improving people's quality of life. This is why the investment budget allocated to the Land Infrastructure and Transport sector remains one of the largest in the world, consolidating and deepening the State's commitment to high-quality, bioclimatic infrastructure and modern means of transport. To ensure the longevity of these acquisitions, they must be perfectly aligned with sustainable development objectives and environmental requirements. However, the country's legitimate ambitions to modernize transport cannot be met by domestic

resources alone, hence the need for external funding to implement mass transit projects such as the Regional Express Train (TER), the Restructuring of Public Transport (RTC) and the Bus Rapid Transit (BRT).

The financing provisions set out in the Priority Investment Program (PIP) for the years 2024-2026 for these three (3) major projects, are :

1. The Bus Rapid Transit (BRT) pilot project: this includes the construction of a set of infrastructures, notably a platform reserved for BRT, stations, interchange hubs, a bus control and maintenance center (workshop-depot), urban development along the corridor, facilities for pedestrians and cyclists, as well as a ticketing system and an operating and passenger information support system. The overall cost is estimated at 419 billion FCFA, including a private investment of 130 billion FCFA, with an estimated endowment in 2024 of 12.226 billion FCFA, including 3.5 billion FCFA from internal funding and 8.726 billion FCFA from external resources.

2. Restructuring of the public transport network (RTC), which consists of reorganizing the bus network to reinforce the public transport offer as a complement to the BRT and TER, offering users connecting services (feeder services) and improving service to areas far from the mass transit lines (BRT and TER).

The project is built around a priority program comprising 32 lines, a fleet of 930 new low-carbon buses (natural gas and electric), 4 depot workshops and around

80 km of roadways and sidewalks to be upgraded or rehabilitated along the routes served, including intersections, bus stops and terminals. It will carry up to 780,000 passengers a day and avoid 53,000 tonnes of CO_2 emissions annually. This first phase, whose investment cost is estimated at 231.5 billion FCFA (353 million euros), is scheduled to run from 2023-2026. The second phase is scheduled to start in 2026. Its funding in 2024 is estimated at 4.748 billion FCFA, including 2 billion from internal funding and 2.748 billion FCFA from external resources.

3. Senegal's Train Express Regional (TER), a modern, efficient rail transport project designed to improve urban mobility in the Dakar region, has been launched in response to the challenges of road congestion and growing urbanization. It represents a qualitative leap forward in the country's transport sector. The 55-kilometer rail network will eventually link Dakar to Blaise Diagne International Airport. The first 36 km phase, linking Dakar to the town of Diamniadio, is already in service.

This is a major project contributing to the modernization of mass transport in modern, safe conditions, and represents a significant investment in economic, urban and environmental

terms. For phase 2, the amount retained is 253 billion FCFA and the allocation for 2024 is estimated at 21.8 billion FCFA, including 12.5 billion FCFA from internal funding and 9.3 billion FCFA from external resources.

The project has a significant impact in terms of reducing the carbon footprint (over 93,000 tonnes of CO_2 equivalent), with the use of clean energy for its operation, but also in terms of reducing traffic jams, contributing to the development of the areas crossed (development of rainwater drainage infrastructures) and landscaping.

CONCLUSION

Following the example of leading nations, Senegal has adopted a budgeting approach that takes into account the environmental dimension, commonly referred to as the "green budget". This document, which is an appendix to the Finance Bill for 2024, measures the environmental impact of the State's budgetary policy on various sectors.
The appropriation of change management and consultation methods by government departments will help people and regions to adopt adaptation strategies, or at least make them aware of the need to use these tools to initiate far-reaching transformations. This approach will facilitate the transition to action.

It is part of the responsible investment framework, which aims to add respect for environmental, social and governance criteria to purely financial criteria. This is a market that has developed considerably and continues to grow.

The preservation of the environment and the success of its ecological policies require the mobilization of major efforts, notably by the public and private sectors, over the short, medium and long term. In a context where budgetary resources are limited, this mobilization implies the implementation of innovative and complementary financial instruments.

To achieve this, the government must play its full part in improving and enhancing the environment, by implementing a tax system adapted to the socio-economic context and increasing private sector participation in financing green projects, in order to help safeguard environmental environments subject to an accelerated rate of degradation.

However, despite the efforts made by the various economic and financial players to protect the environment and promote sustainable development, the current situation remains worrying and obliges public authorities to give greater importance to environmental policy in their public policies.

In this respect, the major challenge is to broaden the prism of adaptation strategies to include all the economic and social dimensions that need to be addressed to ensure the resilience of territories. To this end, measures are envisaged to strengthen the institutional framework for managing public investments. This will involve formalizing the consideration of climate resilience (adaptation and mitigation) at the various stages in the life cycle of public investment projects and programs.

The outlook for environmental projects in Senegal is also brighter, thanks to the introduction of a framework document for financing environmental, social and governance (ESG) investment needs.

Governance (ESG) investment needs. With this new framework shared and adopted by our technical and financial partners, the Government now has a benchmark for sustainable sovereign bond issues on the international private capital markets, as well as with bilateral and multilateral agencies.

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