



GONGLA Industry Opinion on VAT and
Import Duty Settings for Off-Grid Lighting
Products and Solar Home Systems

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Background

One of the main market barriers for the off-grid lighting industry is the high upfront cost of renewable technologies such as a solar home systems to consumers, even though these products are far more economical in the long run than the current market leaders—namely kerosene. Solar lighting eliminates many negative externalities from using kerosene for lighting and can offset kerosene expenditures in a matter of months, for several years' worth of expenses. Yet in many key markets throughout the developing world, VAT rates and tariffs on solar products significantly inflate end-user costs, thereby undermining the ability of the off-grid lighting and appliances industry to compete with traditional means of lighting and electrification. Historically, tariffs and VAT for off-grid lighting solutions in some markets have constituted more than 40% of retail prices; these policies place pico-PV products beyond the purchasing capability of many who stand to gain the most from their use.

Industry Position

Aligned with the widespread consensus among experts and policymakers, GOGLA members hold the view that long-term VAT and tariff exemptions on clean and sustainable off-grid products and the needed spare parts for their maintenance will benefit market-building efforts as well as increase the range of quality, affordable options available to consumers. Exemptions will be passed on to the end-customer and thus significantly lower the retail price of products. By exempting solar products and their spare parts from VAT and tariffs, governments can contribute to a more level playing field and support sustainable local market development for renewable off-grid lighting solutions. Examples like Kenya or Tanzania show that VAT and tariff exemption have proven to be very effective to accelerate market development.

GOGLA members acknowledge the desire for governments to protect the interests of local manufacturers and businesses through trade policy. By exempting off-grid lighting products from VAT and tariffs, governments can accelerate the market demand that makes local manufacturing economical while simultaneously supporting market development that expands choice for end-users.

In turn, governments can benefit from reduced spending on subsidies as well as the creation of new jobs. Avoided negative externalities, overall socio-economic development, and reduced spending on kerosene subsidies will have a strong positive impact on government revenues. For instance, in the ECOWAS region, kerosene subsidies amount to an annual USD 25 per capita. A faster uptake of solar products for lighting would significantly lower the purchase of kerosene and thus government spending on subsidies. UNEP estimates that for every one million dollars spent by governments on kerosene subsidies, tariffs for 250,000 solar lanterns could be off-set (UNEP 2014a). An accelerated market growth would also boost job creation: only in West Africa, 50,000 additional jobs could be created in the field of off-grid lighting (UNEP 2014b).

Recommended Action

To ensure that as many people as possible can benefit from solar lighting technologies, GOGLA recommends following the model of prudent national governments such as Kenya and Tanzania, and adopting a long term zero VAT and tariff policy for solar products and their component parts.

Further Readings / Additional Sources

SolarAid (2014): Impact Report 2014.

UNEP (2014a): Lifting the Darkness on the Price of Light / UNEP (2014b): Light and Livelihood

Mills, Evan. (2005): "The Specter of Fuel-Based Lighting." *Science*, Vol 308, Issue 5726, 1263-1264, 27

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