

POLICY BRIEF

Sustainable Revenue Sources for the National Environment and Climate Change Trust Fund

Key message

- *The National Environmental Management Act (EMA, 2004) provides for a legal framework that establishes the National Environmental Trust Fund and requires climate change related activities to be executed in the country. Despite being established through EMA, 2004, the National Environmental Fund has not been operational;*
- *There is a need for a strong political-will and exercising of moral obligations to conserve and manage environment (which plays an enormous role to our livelihoods and ecosystem services) as well as in addressing climate change related activities for the good of our communities and the drive towards realization of the industrialization agenda of Tanzania.*
 - i) *Make amendments on the Environmental Management Act (EMA, 2004) section 213.1 which established the National Environment Trust Fund (NETF) to accommodate a new **name of the fund (National Environment and Climate Change Trust Fund (NECCTF)), nature, governance structure** as well as developing **robust and comprehensive functions** pursuant to a new Fund*
 - ii) *Legally assign and establish sources for domestically generated revenue for the operationalisation of the National Environment and Climate Change Trust Fund (NECCTF); preferably from the environmental management and climate change related revenue sources in the country.*
 - iii) *Provide for a deliberate budgetary allocation to the Ministry responsible for environment and climate change for effective and smooth operationalisation of the National Environment and Climate Change Trust Fund (NECCTF).*

1. Introduction

Like many countries in the world, Tanzania faces several environmental challenges; having land degradation and climate change being the grave challenges. It is projected that future climate change could be much worse, leading to significant economic costs to the country (IPCC, 2016). Of keen interest, climate change is increasingly becoming a global concern that needs global efforts to tackle as it challenges sustainable livelihoods, economic development as well as the global security (UN, 2015). The combined effects of current climate vulnerability and projected future climate change are expected to be huge enough to prevent Tanzania from achieving key economic growth, human development and poverty reduction targets, including the planned schedule for achieving middle-income country status by 2030.

Conscious of role of environment in the attainment of sustainable development goals and a mid-income industrialized economy status, the country has undertaken several efforts and putting-up legal frameworks, policies, strategies, programmes and plans. Of importance, is the enactment of the Environmental Management Act (2004), which established the National Environmental Trust Fund (NETF) under section 213-215, as public fund which operates not for profit and governed by Board of trustees. NETF is strategically set as a financing mechanism to provide long term reliable and sustainable financial support to environmental conservation in Tanzania. In terms of functions, the NETF is required to facilitate research intended to further the requirement of environmental management, fostering capacity building, conferring environmental awards, issuing environmental publications, provide scholarship, promote and assist through grants, Community-based environmental programmes and to pay for the cost of the meeting of the National Environment Advisory Committee and of the Board of trustee of the NETF. However, the Fund has not been capitalized and it is not operational since then; one of the factors being inadequate funding. Therefore, there is need for a change of functions to make

the Fund a strong Authority that it functions as expected in addressing the targeted challenges in the country.

2. A synopsis of the drivers of Land degradation and Climate Change

There are varieties of drivers of environmental degradation and climate change in Tanzania. Some of these drivers include: deforestation, agriculture, industrial activities, mining, land use land changes, poor agronomic practices, and emissions from different sources including vehicles and other transport vessels. All these anthropogenic drivers are largely a function of population increase, their needs, dynamics and the associated demands for their existence. The interaction of all these drivers grossly lead into serious land degradation and climate change in the country.

For the betterment of the country as well as ensuring the achievement of Sustainable Development Goals (SDGs) while ensuring people's livelihoods, there is need for political will, government's commitment and deliberate efforts in addressing these challenges. The establishment and effective operationalisation of the National Environment and Climate Change Trust Fund (NECCTF) is one of the best options to pursue in these efforts. As indicated in the introductory part of this policy brief, since its establishment through EMA, 2004, the National Environment Fund (NEF) has not been operational due to among other factors, the inadequacy of finances.

3. Lessons from existing related Funds

There are various Funds in the world that provides valuable experiences in the establishment, type, operationalization, failure and Achievements of the Environmental Funds (EFs). Some of the examples include; *the Amazon Fund of Brazil, Bangladesh Climate Change Trust Fund, Cambodia Climate Change Alliance Trust Fund, Thailand Energy Efficiency Revolving Fund, Costa Rica National Forestry Financing Fund, Rwanda Environment and Climate Change Fund, Kenya National Environment Trust Fund, Uganda Environment and Climate Change Fund, South Africa Green Fund and the Namibia Environmental Investment Fund*. Overall, these Funds suggests that, most of the Funds were established through the monies pumped-in by the Government. In addition, other funding sources including royalties, fees, charges, penalties and levies have made these funds very strong and operational.

In Tanzania, there exists environmental Conservation and Climate change related Funds. Such Funds includes, the *Eastern Arc Mountains Conservation Endowment Fund (EAMCEF), Tanzania Forest Fund (TaFF), Tanzania Wildlife Protection Fund (TWPF), and the Rural Energy Fund (REF)*. Apart from the EAMCEF, the analysis shows that, rest of Funds are operated through funding from the Government budgetary allocation, royalties, levies and fines mainly from the proceeds of their related products. In addition, there are additional funding sources from the domestic and international sources. This implies that, these Funds enjoys the benefit of taking part of the income that was supposed to be channelled to the Central government. This has been possible among others, due to the provisions provided through legal mandates of their establishment.

4. Proposed Sustainable Revenue Sources for the Environment and Climate Change Trust Fund

a) Revenue from Non-Tax revenue due to Emissions from Vehicles: Statistics from the World Health Organization (WHO, 2012) indicate that approximately 2.4 million people die each year from air-borne illnesses, especially from the smoke of transport vessels (WHO, 2012). The Tanzania Revenue Authority figures show that by June 2019, our country is estimated to have approximately 2,681,058 transport vessels in use (without the categorization of vessels). As one of the suggested source of revenue, it is hereby proposed that, every registered transport vessel in the country be charged a sum of TZS 3,000 per year as a cost of emission test and a charge not exceeding TZS 10,000 as a cost of

contamination. These will generate a total of **TZS 8,043,174,000** and about **TZS 26,810,580,000** per year respectively. In other words, the Fund will get a sum of not less than **TZS 30 Billion** annually.

b) Revenue from Environmental Management related Fees and Charges: Section 213 (2) (e) of the Environmental Management Act 2004 stipulates that "*The sources of revenue flowing into the environmental fund shall be, the tax of which shall be determined by the Minister on regulations from all fees charged under this Act*". They include; the annual fees for monitoring and inspection of projects, quality management fees for air, water and soil pollutants, deductions for genetically degrading ozone layers and licenses for collecting, storing, transporting and disposing of hazardous waste. Currently, the regulation of the enforcement of the levy and environmental regulations is under the National Conservation and Environmental Management Council (NEMC) in accordance with environmental legislation 2004 section 217 (c) and 230 (2) (b) which empowers the responsible minister of the state to draft regulations specifying the fees and charges levied under this law. The table below shows Total NEMC's collections of fees and charges for Three (3) years.

Fees and charges collected by the national environmental management council for three years						
FY	Fees & charges	Penalties	Total	Proposed rates for the fund		
				3%	5%	10%
2016/2017	436,543,500	1,171,480,000	1,608,023,500	48,240,705.00	80,401,175.00	160,802,350.00
2017/2018	1,449,314,004	1,124,980,000	2,574,294,004	77,228,820.12	128,714,700.20	257,429,400.40
2018/2019	3,639,420,868	6,020,730,000	9,660,150,868	289,804,526.04	483,007,543.40	966,015,086.80

(Source: NEMC, 2019)

It is hereby proposed that, either 3%, 5% or 10% is agreed to be apportioned and contribute to the Fund. If any of the proposed rate is accepted and based on the 2018/19 collections, then the Fund will receive between **TZS 280 Million to approximately 1 Billion** per year.

c) Revenue from Fees (Non-Tax) Collected from Mining Activities: The Mining sector is one of the major drivers of environmental degradation which consequently leads to among others, climate change. According to the budget speech of the Ministry of Minerals for the Financial year 2020/21, it was reported that, up to March 2020, the Commission for Minerals collected a sum of TZS 358,643,870,797 equivalent to 102% of the projected target of TZS 352,765,797,750 accrued from various fees and royalties among others. The speech further provided that, for the financial year 2020/21, the Ministry expects to collect a total of TZS 547,735,863,597 (which is an increase of nearly 14.98%). Out of the total collection realized in a year on royalties and associated fees, it is proposed that, 3% of this collection be deducted and contribute to the Fund. If this proposal is accepted, then the Fund will be able to get a sustainable revenue of not less than **TZS 8,719,824,775** per year.

d) Revenue from Electronic (e-waste) Waste: Data from Tanzania Telecommunications Authority (TCRA) shows that from June 2011 to June 2019, the number of registered mobile customers increased from 22.3 million to 43.7 million. The current statistics shows that Tanzania has not less than 27 million mobile phones and on average, a new phone is used for two years only, thus indicating huge electronic waste production. According to Tanzania Revenue Authority (TRA), revenue collections from electronic and electronic payments (generators, printers, scanners, air conditioners, transformers, switch gears, measuring devices, cell phones, computers, television, laptops, ipad, tablet, UPS, chargers telephone, etc) from the importation of electronic and electronic equipment in 2017/18 grew to TZS 354.4 billion and in the year 2018/19 revenue grew to TZS 371.5 billion. Following the figures for the 2017/18 and 2018/19 financial year it is proposed that 10% of the tax revenues collected by TRA out of these contributes to the Fund. The proposed 10% is expected to give a sum above **TZS 3.715 billion** per year.

e) Revenue from Excise Duty on Old age Vehicles: According to the NFYDP 2016/17 – 2020/21, The Government has imposed an environmental levy or tax on second-hand vehicles of over certain age (e.g. eight in 2015). The Revenue Authority (TRA) figures show that a total of 167,268 Vehicles were imported during 2015/16 to 2018/19. The importation of these vehicles has enabled the Government to collect a total of TZS. 409,423,647,830 during the period. Since the primary purpose of this charge is to control the pollution caused by the smoke emanating from used vehicles, it is recommended that at least 3, 5 or 10 percent of this excise duty be included in the Environment Trust Fund. For any of the proposed rate, if accepted, the Fund will get between **TZS 3 to 11 Billion** annually. The table below, provides a snapshot of the revenue from this excise duty and its corresponding propositions.

Financial Year	Number of Vehicles	Excise Duty (TZS)	3% option	5% option	10% option
2015-2016	48,480	119,332,426,363	3,579,972,790.89	5,966,621,318.15	11,933,242,636.30
2016-2017	34,429	87,946,210,946	2,638,386,328.38	4,397,310,547.30	8,794,621,094.60
2017-2018	37,873	91,181,457,137	2,735,443,714.11	4,559,072,856.85	9,118,145,713.70
2018-2019	46,486	110,963,553,384	3,328,906,601.52	5,548,177,669.20	11,096,355,338.40
Total	167,268	409,423,647,830	12,282,709,434.9	20,471,182,391.5	40,942,364,783

Source: Tanzania Revenue Authority 2019

f) Revenue from Tourism and Hospitality Industry: The National Tourism Policy of 1999, provides that, there is a relationship between the environment and development of sustainable. The Tanzania Tourists Board, claims that, the sector registered a total of 1.3 Million tourists in the year 2017 and 1.5 Million tourists in the year 2018, indicating an increase of 15.3%. It is hereby proposed that a small amount of fees amounting to **USD 0.5** be levied to tourists for the Fund. If we take the number of tourists during the year 2017 and 2018 as baselines; translating to an incremental number of tourists to 200,000 per annum, the revenue for the Fund will be as indicated in the table below.

# of Tourists/ Year	2017	2018	2019	2020	Total
Number of Tourists	1,300,000	1,500,000	1,700,000	1,900,000	6,400,000
Levy (USD 0.5)	650,000	750,000	850,000	950,000	3,200,000
Revenue in TZS	1,495,000,000	1,725,000,000	1,955,000,000	2,185,000,000	7,360,000,000

From the above table and if the trends remain or increases, an estimated amount of not less than **TZS 2 billion** will be contributed to the Fund annually.

g) Revenue from Airport departure charges: As it stands currently, airport charges are charged at a rate of TZS 10,000/= and at USD 40 for domestic and International travel respectively. This proposal submits for a consideration of an additional TZS 5,000/= and USD 5 for domestic and International travel respectively to cover for the carbon footprint as a revenue source for the Fund. According to TCAA (2017), a total number of domestic passengers were **2,733,641** and **2,808,444** for the year 2016 and 2017 respectively; and a total number of International travel passengers were **2,226,011** in the year 2016 and **2,257,118** in the year 2017. If these years are taken as baseline years with a percentage incremental rate of 2.7% for domestic passengers leading to **2,884,272** passengers for the year 2018, **2,962,147** for year 2019 and **3,042,125** will be in the year 2020. The international passengers are increasing at a rate of 1.4%. If accepted, it is anticipated that **TZS 72,153,145,000** for domestic travellers and **TZS 131,627,367,000** for the International passengers resulting to a total of **TZS 203,780,512,000** as indicated in the table below.

Year	Domestic passengers (2.7%)	International passengers	Revenue domestic (TZS)	Revenue international	Inter. Revenue Exchange Rate
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	Incr. rate)	(1.4% incr. rate)	5,000/=)	(USD 5)	(USD = TZS)
2016	2,733,641	2,226,011	13,668,205,000	11,130,055	25,599,126,500
2017	2,808,444	2,257,118	14,042,220,000	11,285,590	25,956,857,000
2018	2,884,272	2,288,718	14,421,360,000	11,443,590	26,320,257,000
2019	2,962,147	2,320,760	14,810,735,000	11,603,800	26,688,740,000
2020	3,042,125	2,353,251	15,210,625,000	11,766,255	27,062,386,500
Total	14,430,629	11,445,857	72,153,145,000	57,229,290	131,627,367,000

h) Revenue from Drinks served on plastic bottles: The basis of the proposal of revenue from plastic bottles drinks is that, they significantly contribute to pollution by adding plastic waste to the environment. Tanzania has a total of 72 major and small-scale manufacturers that produce liquids packaged in plastic bottles. The assessment shows that, the three factories/ industries of such drinks produce a total of 648,297,319 plastic bottles per year. It is hereby proposed that bottled water companies be charged 0.5 shillings per bottle to contribute to the Environmental Fund. If accepted, this will earn the Fund not less than **TZS 324,148,659.5 / =** per year.

5. Effects of the Diverted Funds and Ways to Abate the effects

It is true that, any introduction of fees, taxes or levies to the economy will have a burden to Taxpayers, consumers, effects on sectoral, macroeconomics and the general economic development. However, it important to note immense significance of the environment contribution to the well-being of the country's economic development through resources that is endowed-with, including mineral deposits; ecosystems services (*regulating, supporting, provisioning and cultural*) and for the development of various productive sectors including agriculture, tourism, energy, mining, infrastructure and livestock among others. In addition, addressing environmental challenges including environmental degradation and climate change contributes to the country's efforts in contributing to Agenda 2030 (SGDs 1, 2, 3, 6, 13,14 and 15) as well as enabling the country to becoming a Medium Income Industrialised country by 2030.

6. Conclusion

In summary, all proposed revenues can collect a sum of not less than TZS 577.5 Billion in a period of Five years for the Fund in the assumption that the pegged percentages of increase will remain as they are (*ceteris-peribus*) as shown in the table below.

Source of revenue in Billions	2021	2022	2023	2024	2025	Total
i. Emissions from Vehicles (4%)	32.1	34.4	36.75	39.3	42.1	184.7
ii. Environmental Management Revenue (5%)	0.51	0.53	0.57	0.6	0.6	2.8
iii. Fees (Non-Tax) Collected from Mining (15%)	10.0	11.5	13.2	15.2	17.5	67.5
iv. Fees from Electronic (e-waste) Waste (17.1%)	4.4	5.1	5.9	6.9	8.2	30.6
v. Excise Duty on Old age Vehicles (5%)	5.8	6.1	7	7.4	8.5	34.8
vi. Tourism and Hospitality Industry (15.3%)	2.5	2.9	3.3	3.8	4.4	16.9
vii. Drinks served on plastic bottles (2%)	0.33	0.34	0.37	0.4	0.6	1.7
viii. Airport departure charges (4.1%)	44.0	45.8	47.6	49.6	51.6	238.6
Estimated Total	99.64	106.67	114.69	123.2	133.5	577.6

Given the economic trends as well as the population dynamics in the country, all of the proposed revenue sources are expected to be sustainable as they will be collected annually, and the amounts are expected to increase as time elapses.

It is however proposed that, the name of the Fund be known as the National Environment and Climate Change Trust Fund (NECCTF). It is also proposed to implement two main functions namely, **Resources Mobilization and Planning and Monitoring and Evaluation (M&E)**. The Fund will also play a coordination Role for **Capacity Building, Projects Implementation and Partnership, Collaboration & Cooperation**.

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