

GREEN BONDS IN ZAMBIA



MEMORANDUM

Legal Alert on the Taxation of Green Bonds in Zambia

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1. INTRODUCTION – What are Green Bonds?

1.1. In the 2023 Budget Address to the National Assembly of Zambia (the "Budget Address") delivered on 30 September 2022 by the Minister of Finance and National Planning (the "Minister"), the Government of the Republic of Zambia (the "Government") expressed its commitment to exploring innovative sources of financing, including Green Bonds. The Securities (Green Bonds) Guidelines, 2019 (the "SEC Guidelines") define Green Bonds as

“fixed income or debt securities, either unlisted or listed on a securities exchange, approved by the SEC, whose proceeds are used to finance or refinance new or existing projects that generate climate or other environmental benefits in line with green guidelines and standards.”

1.2. Globally, Green Bonds have emerged as a significant funding mechanism for environmental or climate-based projects. Since the European Investment Bank's inaugural Climate Awareness Bond in 2007, the Green Bonds market has been growing exponentially. On 5 July 2007, the European Investment Bank (the "EIB") issued its inaugural Climate Awareness Bond to allocate finance exclusively to eligible renewable energy and energy efficiency projects. The World Bank launched the "Strategic Framework for Development and Climate Change" in 2008, introducing Green Bonds to stimulate and coordinate public and private sector activity to combat climate change. In Zambia, the Capital Markets Master Plan 2022 (the "CMMP") aims to combat climate change and encourages the development of instruments such as Green Bonds to contribute to this broader goal.

2. Benefits – Why Green Bonds?

2.1. Green Bonds support low-carbon development pathways. The Government's pursuit of Green Bonds aims to back low-carbon development pathways, leading to the initiation of sensitisation efforts among potential issuers and investors across Zambia. Additionally, the Government is developing a pipeline of projects eligible for Green Bond financing.



Regulations

- 2.2. Green Bonds align with the CMMP's objectives, promoting environmentally friendly sustainable development in Zambia. Moreover, by issuing Green Bonds, Zambia can enhance its international reputation, attracting foreign investment.
- 2.3. Notably, Green Bonds offer tax incentives for investors in certain jurisdictions, including Zambia. This favourable taxation treatment, coupled with the positive impact of funding sustainable projects, makes Green Bonds advantageous for both issuers and investors, fostering goodwill.
- 2.4. Embracing Green Bonds allows for the adoption of innovative and environmentally friendly technology. This support is quite beneficial for a developing country like Zambia, which is currently working towards achieving sustainable development.

3. Regulatory Framework

- 3.1. As the importance of Green Bonds grows, regulatory frameworks governing their issuance have emerged. In Zambia, the issuance of Green Bonds is regulated by the SEC Guidelines, issued in 2020 by the Securities Exchange Commission (the "SEC") under section 211 of the Securities Act, No. 41 of 2016. Additionally, the Government has developed guidelines and listing rules for Green Bond trading in the country.
- 3.2. The SEC Guidelines apply to all issuers of green-labelled bonds in Zambia and prescribe procedures for their issuance. These guidelines impose obligations on issuers, including disclosure requirements on the use and management of proceeds, the appointment of an Independent Reviewer for pre-issuance reviews, preparation of a Prospectus in compliance with the Securities (Registration of Securities) rules, and adherence to continuing obligations and reporting requirements as specified in the Securities Act and the Securities (Registration of Securities) rules.



TAXATION

4. Taxation Considerations

- 1.1. Interest earned on Corporate and Government Bonds in Zambia is typically subject to Withholding Tax ("WHT") at a rate of 15% according to the Income Tax Act, Chapter 323 of the Laws of Zambia. However, for Green Bonds listed on a securities exchange in Zambia with a maturity of at least three (3) years, the WHT rate on interest is reduced to 0% per annum. This tax incentive, introduced through the Income Tax Act (Amendment) Act, No. 24 of 2022, which came into operation on 1 January 2023, aims to support the development of the Green Bond market. It significantly benefits investors, making Green Bonds an attractive investment option.
- 1.2. While the introduction of 0% WHT on interest from Green Bonds incentivises investors, further consideration should be given to providing tax incentives for Green Bond issuers. Such incentives would foster the growth of the Green Bond market in Zambia and encourage more issuers to fund environmentally sustainable projects. As of now, no Green Bonds have been issued in Zambia.

OUR LIMITATIONS

Kindly note that this legal alert is not exhaustive and does not constitute legal advice. If you would like us to render a comprehensive legal opinion, please contact the following:

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