



# Country Practices in Project Aid Taxation: Benin, Cameroon and Kenya

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# Country Practices in Project Aid Taxation: Benin, Cameroon and Kenya

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DECEMBER 2022

Emilie Caldeira, Anne-Marie Geourjon,  
Grégoire Rota-Graziosi

Prepared by:



FONDATION POUR LES ÉTUDES  
ET RECHERCHES  
SUR LE DÉVELOPPEMENT  
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This study was commissioned by the Platform for Collaboration on Tax (PCT) and prepared by La Fondation pour les études et recherches sur le développement international (Ferdí) under the supervision of the PCT Secretariat and Staff of the four PCT Partner Organizations - the IMF, the OECD, UN and the World Bank Group. The work of the PCT Secretariat is generously supported by the Governments of Japan, France, the Netherlands, Norway, Switzerland, and the United Kingdom. The views expressed in this report and the arguments employed should not be regarded as the officially endorsed views of those organizations, their member countries or the donors of the PCT Secretariat.

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## Foreword from the Platform for Collaboration on Tax

With the Addis Ababa Action Agenda (2015), countries made a commitment to consider not requesting tax exemptions on goods and services delivered as government-to-government aid, beginning with renouncing repayments of value-added taxes and import levies.

The Platform for Collaboration on Tax Partners have been engaged in activities to support countries fulfil this commitment.

In 2018 the UN Committee of Experts on International Cooperation in Tax Matters established a sub-committee on the issue of tax treatment of projects funded by government-to-government aid. The other PCT partners participated as observers in this sub-committee, together with members of the UN Committee. The UN Committee finalized and released the Guidelines on the Tax Treatment of Government-to-Government Aid Projects at its 22<sup>nd</sup> meeting in April 2021. The thirteen non-binding Guidelines assist donors and recipient countries in determining whether or not tax exemptions should be requested with respect to government-to-government aid projects and, if tax exemptions are requested, how they should be negotiated and, where granted, implemented. The Guidelines encourage donors to refrain from requesting recipient countries to grant specific tax exemptions for their aid projects except where the tax rules in the recipient country are not consistent with internationally agreed principles, or in other exceptional circumstances.

The UN Guidelines also encourage recipient countries to make every effort to forecast the revenue impact of these exemptions and to prepare, and make publicly available, regular tax expenditure reviews of them. The Guidelines further promote the transparency of provisions granting specific tax exemptions for development assistance and of country policies on the subject. The importance of transparency in this area was further emphasized by the UN Committee of Experts adopting a recommendation<sup>1</sup> that the relevant legal instruments enabling provisions on taxation of government to government aid be made publicly available, subject to any legal requirements concerning taxpayer confidentiality.

In January 2022, the OECD launched the Tax Treatment of Official Development Assistance Hub, a portal which presents the policy positions of participating donor countries on claiming tax exemptions on goods and services funded by official development assistance (ODA), as well as when these policies were last reviewed. The portal therefore provides a useful reference point to track progress by participating OECD DAC members on fulfilling the Addis Action Agenda commitment. As of the time of publication the hub contains the details of 20 DAC members.

While the OECD hub provides additional transparency on the policies in donor countries, there is still very little data on the policies and practices on the taxation of projects funded by government-to-government aid in recipient countries. Given that a better understanding of the impact on revenue collection and administration of recipient countries is a key consideration in determining policies in this area, the Platform for Collaboration on Tax (PCT) commissioned supplementary empirical research.

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<sup>1</sup> E/C.18/2020/CRP.31

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The French think tank, Ferdi was therefore engaged to provide the following report, looking at the issue of tax exemptions on government-to-government aid from the recipient country perspective, including through case studies in three countries - Benin, Cameroon and Kenya. It provides new evidence on revenue impacts and administrative and compliance burdens, as well as potential spillover impacts on trade, tax abuse, and public financial management.

The PCT partners hope that this new study will provide a useful complement to the work already undertaken by the PCT partners, provide a valuable addition to the evidence available to policy makers engaged on the issue of the tax treatment of government-to-government aid, and further promote the dissemination of the UN Guidelines.

The PCT partners also recognize that further research and transparency on this topic is needed, from both donor and recipient countries' perspectives. For example, as noted in the paper it remains difficult to assess the challenges associated with exemptions from direct taxation, and even in the area of indirect taxation challenges remain in getting an accurate picture. In addition, as highlighted in the paper tax exemptions on aid can create risks of fraud, tax evasion and corruption, and the PCT encourages all countries to take a zero tolerance to such abuses. As a minimum, negotiated contracts for project aid and procurement should clearly specify the tax treatment in respect of each of the project activities and unambiguously list the goods and services required for the project that would be eligible for favorable tax treatments.

The PCT partners will continue to monitor progress in this area, and where useful seek to facilitate further transparency, dialogue and action.

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## Executive Summary

This study<sup>2</sup> presents and compares the tax treatment of project aid in three countries: Benin, Cameroon, and Kenya.<sup>3</sup> This review was prepared in the broader context of the United Nations Guidelines on the Tax Treatment of Government-to-Government Aid Projects<sup>4</sup> (UN guidelines). The full taxation of aid (with potential refunds) is certainly a first best. However, such a solution is still far from being implemented and its consequences for the number of financed projects remain to be assessed.

In terms of international conventions and client-donor relationships, the specific design and implementation of exemptions are driven and determined by several factors. International conventions, including UN protocol, define whether specific revenue loss is being accounted as tax expenditure or as part of the national benchmark tax system. While a trend seems to emerge towards the taxation of projects funded by aid, the actual implementation is lagging and a number of countries are still considering their positions. Moreover, the specific framework and mechanisms seem to reflect the nature of the donor-recipient political relationships, including the use of tied aid and the Chinese development policy.

The framework and mechanisms vary significantly across the three countries in terms of indirect taxation on aid-funded projects. Systematic exemption in Kenya appears to be the simplest approach across the three countries. However, this practice exposes the country to greater risks of fraud. Indirect tax and tariff exemptions of all goods and services related to project aid are part of the Kenyan benchmark tax system. This approach prevents any assessment of revenue losses and appears to contravene UN guidelines regarding transparency.

The fiscal coverage approaches in Benin and Cameroon are more complex. Their administrative burden is large and may require the establishment of a special administrative unit in charge of the coordination among various stakeholders (tax and customs administrations, Treasury, directorates or ministries in charge of public procurement, firms, etc.). While this unit exists in Benin, its absence in Cameroon may explain the accumulation of outstanding debts. The fiscal coverage system results in cash-budgeted revenues and expenditures, which cannot be considered the best practices in public finance management. These noncash revenue and expenditure may significantly modify some macroeconomic indicators. As an example, the tax revenue-to-GDP ratio may appear higher (0.5 point or more of percentage of GDP) than it would have been with only cash revenue.

Despite the current shortcomings and limitations, the fiscal coverage approaches as seen in Benin and Cameroon appear more transparent and more closely aligned with the UN guidelines (2021). They can enable precise monitoring of the specific tax regimes granted to

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<sup>2</sup> This study was prepared by the following FERDI researchers: Emilie Caldeira (University of Auvergne, CERDI), Anne-Marie Geourjon (the Foundation for Studies and Research on International Development- FERDI) and Grégoire Rota-Grazios (University of Clermont Auvergne, CERDI).

<sup>3</sup> Despite the importance of this issue and the recent publication of UN guidelines on the subject, it has proved particularly difficult to obtain detailed data on aid-funded projects. No example of projects, particularly infrastructure projects, in any of the studied countries has been provided. The study was therefore constrained by the lack of information.

<sup>4</sup> [UN Guidelines on the Tax Treatment of Government-to-Government Aid Projects | Financing for Sustainable Development Office](#)



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each project. This practice could therefore represent an intermediate solution between full taxation of externally funded projects and their total exemption.

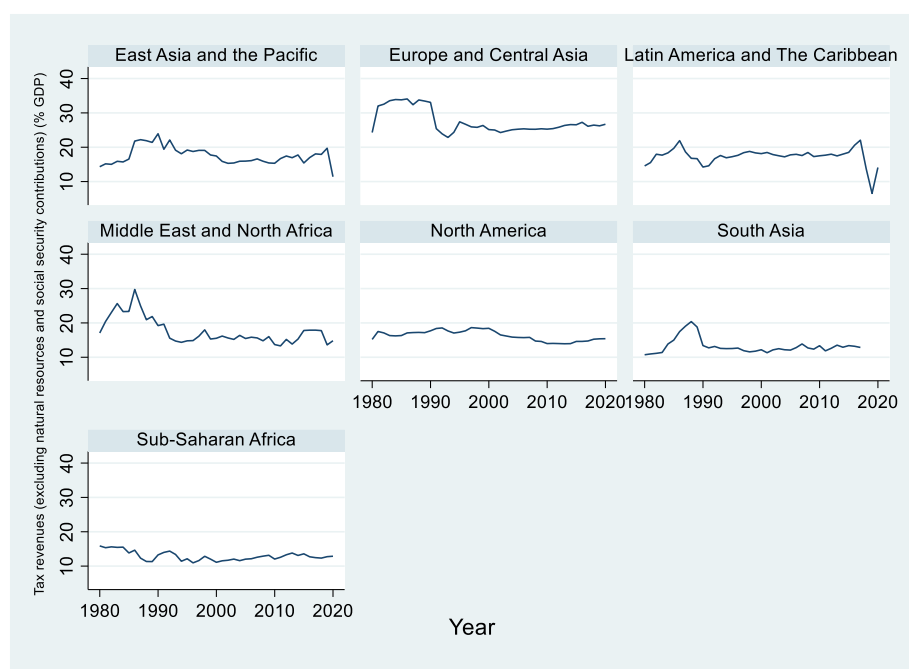
At a more granular level of the fiscal coverage approach, the elaboration of specific types of goods or services can be useful and complementary. As an example, Cameroon's approach to the tax treatment of petroleum products could be extended by creating a negative list of goods or services. The negative list approach consists of imposing the standard tax and customs codes, and therefore explicitly excluding from any exemption or fiscal coverage regime the goods or services that are listed.

# 1. Introduction

## 1.1. Aid and tax: some stylized facts

***The mobilization of domestic revenues, especially tax revenues, has been identified as the main source of financing for the Sustainable Development Goals (SDGs) since the Addis Ababa conference in August 2015.*** However, despite the reforms undertaken in most developing countries – which have ensured a transition of the first-generation tax framework to offset the decline in international trade-based revenues following the dismantling of tariffs – domestic tax revenue mobilization remains insufficient and countries are struggling to meet the targets in terms of the volume of domestic revenue mobilized. This mobilization is, and remains, particularly weak in sub-Saharan African countries. Over the period 2015–2020, these countries mobilized an average of 12.8 percent of their GDP in tax revenues (excluding natural resources),<sup>5</sup> whereas over the same period countries in “Europe and Central Asia,” “the Middle East and North Africa,” and “East Asia and the Pacific” reached an average of 26.5 percent, 16.6 percent, and 16.5 percent, respectively (see Figure 1). In 2020, low-income countries mobilised on average 9.8 percent of their GDP in tax revenues (excluding natural resources), compared with more than 26 percent for high-income countries (Figure 2).

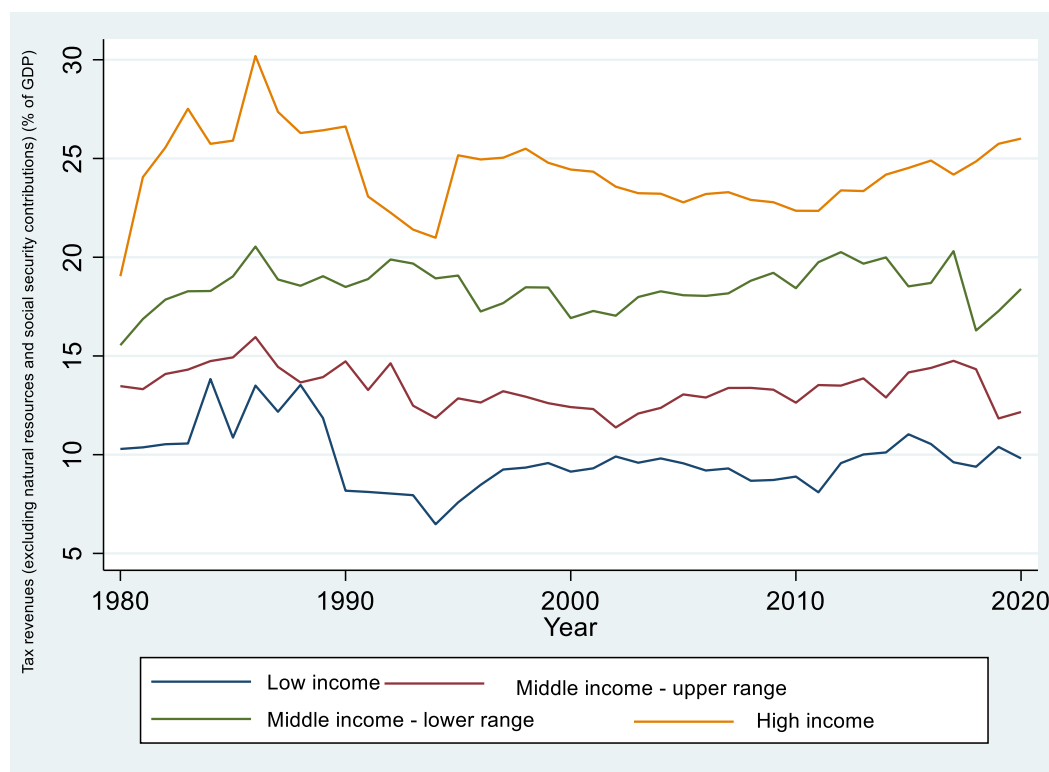
**Figure 1. Tax revenues excluding natural resources and social security contributions (percent GDP) – by region**



Source: Authors' calculations from UNU-wider Government Revenue Dataset, 2021. doi: 10.35188/UNU-WIDER/GRD-2021

<sup>5</sup> Over the period 1980–2020, Sub-Saharan African countries mobilised on average of 12.9 percent of GDP in tax revenues (excluding natural resources). This ratio is relatively unstable over the period. It oscillated between 11 percent of GDP and 15.9 percent and reached 12.9 percent in 2020.

**Figure 2. Tax revenue excluding natural resources and social security contributions (percent GDP)**



Source: Authors' calculations from UNU-wider Government Revenue Dataset, 2021. doi: 10.35188/UNU-WIDER/GRD-2021

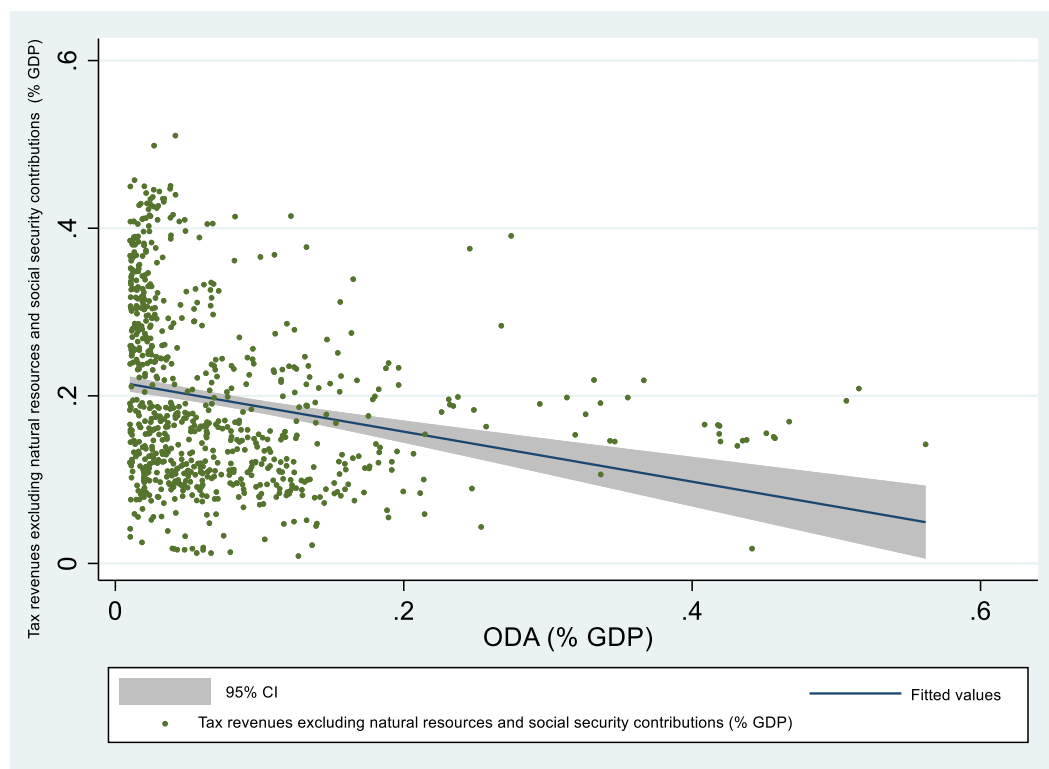
**Countries that receive significant official development assistance (ODA) over GDP are also countries that display low tax revenue-to-GDP ratios (Figure 3).** This correlation is not a causal relationship between aid and taxation, but it emphasizes that the issue of taxing aid is perhaps more salient in countries where this aid is more important.

**Despite efforts to improve the tax systems, developing countries have relatively limited tax potential.** Developing countries are characterized by high tax rates, narrow tax bases, and consequently low tax burdens, implemented in a weak institutional framework. Several tax policy objectives are being pursued such as attracting foreign direct investment (special economic zones, investment codes) and protecting the poorest populations. These objectives translate into reduced rates and tax exemptions, which constitute tax expenditures.<sup>6</sup> A major effort has therefore been made in many developing countries to better understand and control such erratic tax policy initiatives, including exceptional exemption schemes sometimes granted outside of any legal framework<sup>7</sup> (IMF, 2018). Serving as one example, the estimation of tax expenditures and their publication as an appendix to finance laws contribute to their rationalization and improve governments' budget transparency.

<sup>6</sup> Such policy efforts are also to some extent being undertaken in high-income countries, with the difference being that the tax systems in developing countries have been developed over decades, with systematic efforts to ensure revenue buoyancy through broad bases and a firm understanding of tax policy parameters, framed by sounder and more transparent fiscal institutions.

<sup>7</sup> The sources of tax expenditures are, in particular, sectoral codes (mining, oil), investment codes, ministerial decrees, and even settlement agreements and "ad hoc" decisions.

**Figure 3. Correlation between aid received and tax revenues (percent GDP)**



Sources: Authors' calculations – Government Revenue Dataset (UNU-wider), Official Development Dataset (OECD)

***The exemptions on official development assistance (ODA), especially in least-developed countries, may hinder the broadening of the tax base.*** As ODA accounts for a significant share of GDP in several developing countries and especially in least-developed countries, exemption for ODA represents a significant loss of tax revenue for them. Indeed, although ODA dependency for low-income countries has been declining over the last 20 years, as a share of GDP, ODA still represented 11.61 percent of GDP in Niger and 8.78 percent of GDP in Mali in 2019.<sup>8</sup> We estimate the extent of any revenue losses (expressed as a percentage of GDP) by multiplying the total tax revenues (as a percentage of GDP) by the level of ODA received (also expressed as a percentage of GDP). Since Value Added Tax (VAT) and customs duty are the most frequently exempted taxes (Steel *et al.*, 2018), the previous estimate based on total tax revenue may overstate potential losses. To avoid this overestimation and obtain the base range of potential losses, the estimate is also made by looking at revenue losses on indirect tax revenues only.<sup>9</sup> Over the period 1995–2019,<sup>10</sup> potential revenue losses represented on average 1.79 percent of GDP when considering total revenues and 0.42

<sup>8</sup> According to the same source of information (Official Development Dataset, OECD), these ratios are 5.58 percent of GDP in Benin, 3.48 percent in Cameroon, and 3.82 percent in Kenya.

<sup>9</sup> In that case, the indirect revenue losses (expressed as a percentage of GDP) are obtained by multiplying the indirect tax revenues (as a percentage of GDP) by the level of ODA received (also expressed as a percentage of GDP).

<sup>10</sup> Data are available from 1980 onwards but the number of observations stabilized at around 90 countries from 1995 onwards, making annual comparisons more relevant.

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percent of GDP when considering revenues losses on indirect tax sources (Figure 4). In 2018,<sup>11</sup> for some 15 countries, potential income losses on indirect tax sources exceeded one percentage point of GDP (see Table 8 in the appendices).

***For countries whose ODA exceeds 5 percent of GDP, revenue losses represented on average more than 2 percent of GDP when considering total revenues and 1 percent of GDP when considering only indirect tax revenues in 2018 (see Table 8 in the appendices).*** For example, in Rwanda, the revenue losses on total tax revenues were estimated at around 3 percent of GDP while the ODA to GDP was at 11.5 percent and the tax revenues over GDP at 26.8 percent. In Rwanda, indirect revenue losses alone exceeded 1 percentage point of GDP in 2018. In Niger, Mali, and Burkina Faso, this ratio was close to 1.5 percent of GDP. For Cameroon, our estimate of indirect revenue losses related to project aid is equal to 0.28 percent of GDP, while Cameroon's authorities assess these to be 0.49 percent of GDP and an IMF technical assistance mission makes these 0.53 percent of GDP for the same fiscal year (2019). These discrepancies highlight the importance of revenue losses (in terms of GDP) and the difficulties in assessing them resulting from a lack of transparency in the tax treatment of project aid.

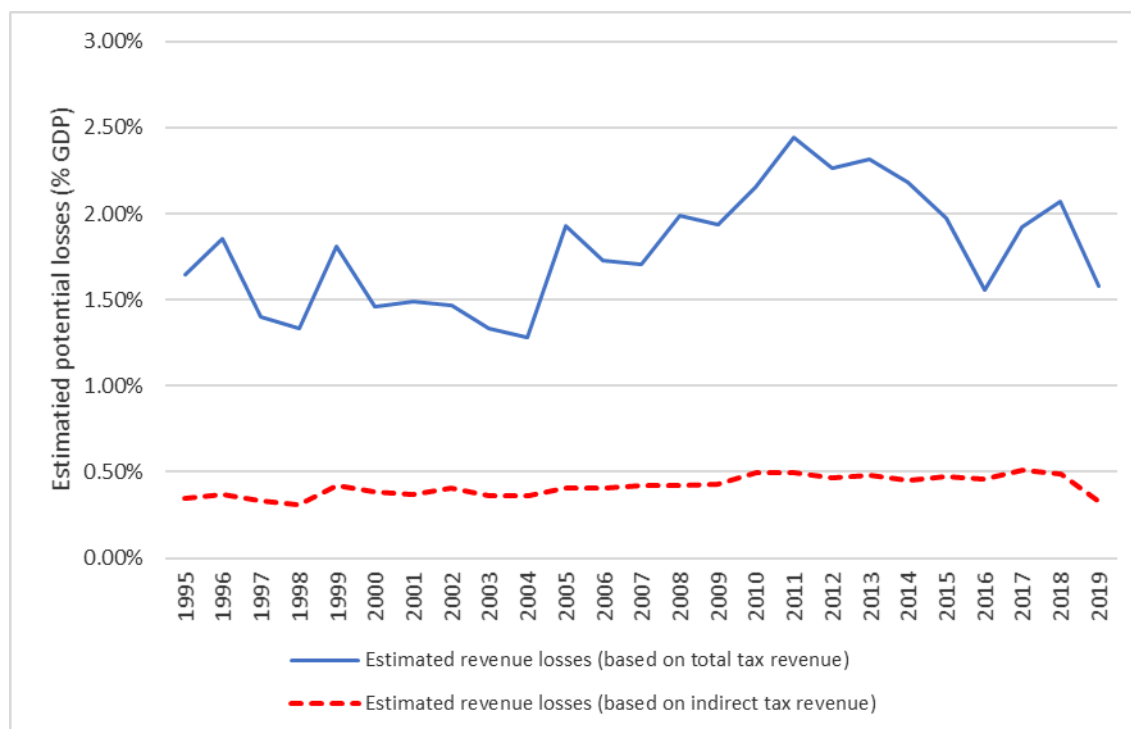
***These estimates, although imperfect, highlight the significant potential impact of the tax exemption for project aid in developing countries.*** Moreover, in such a context, a massive flow of aid in the form of externally financed projects has a direct and indirect impact on economic growth. A corresponding positive effect on the country's tax revenue will not be found, or will at least be significantly weakened, due to the exemptions on project aid.

***A significant part of ODA in fragile states relates to emergency humanitarian aid, which is exempted from taxation according to a UN protocol.*** In addition, humanitarian aid may rarely be provided as specific project aid, which is the focus of this study, but such a distinction between project-related and non-project-related humanitarian aid is not provided in the ODA statistics. For these reasons, the estimation proposed may overestimate the revenue loss given the international agreement to exempt humanitarian aid. However, humanitarian aid represented on average 11.9 percent of bilateral aid for the Development Assistance Committee (DAC) countries in 2020, compared to 71.7 percent of project aid and 2.8 percent of budget support (see Figure 4).

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<sup>11</sup> The most recent year for which there are sufficient data.

**Figure 4. Estimated potential losses of tax revenue due to exemption for project aid – 1995–2019**



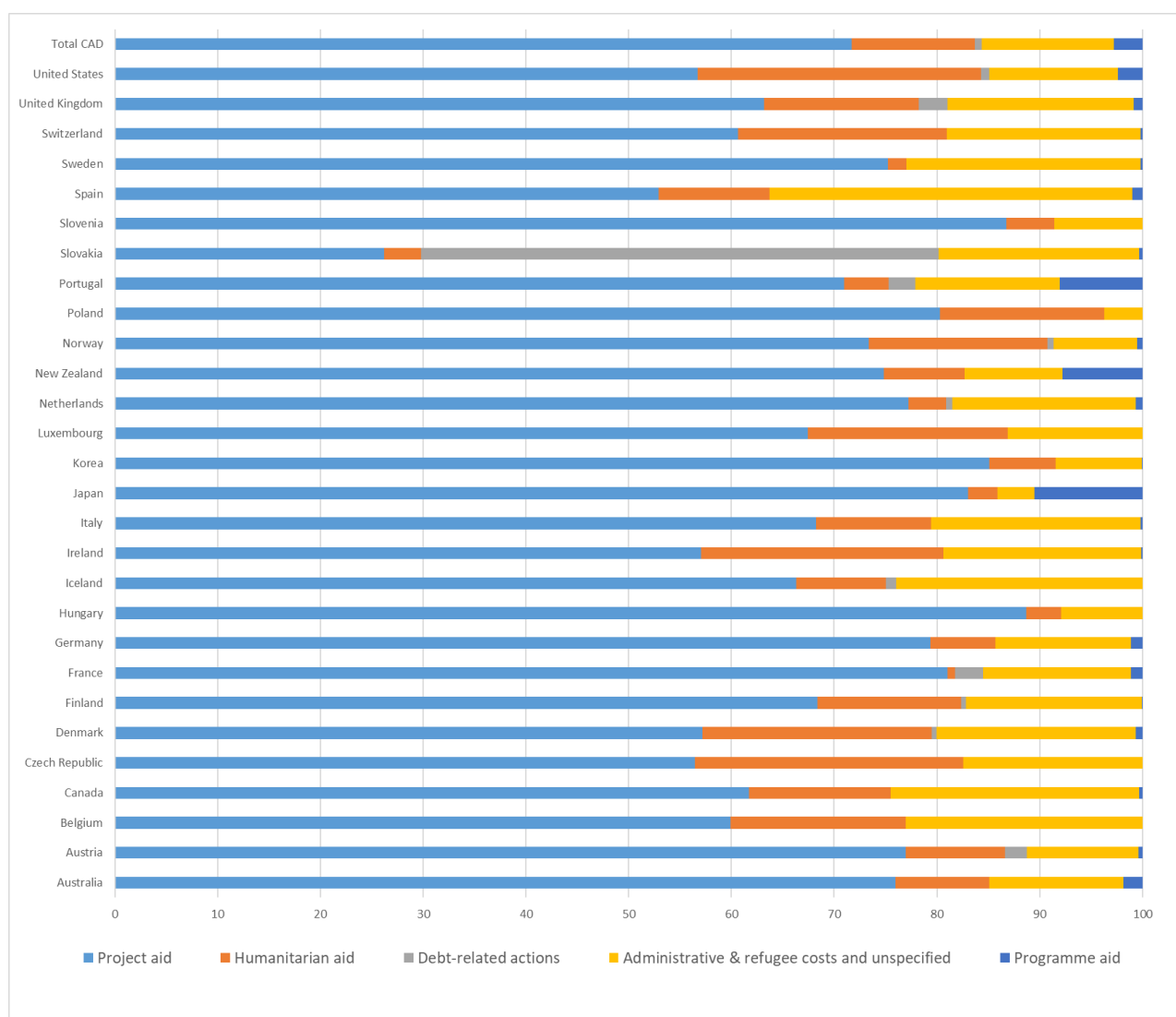
Sources: Authors' calculations – Government Revenue Dataset (UNU-wider), Official Development Dataset (OECD)

***In addition to the revenue loss, the exemption for project aid has particularly harmful effects on the formalization of economy in the countries (Caldeira et al., 2017; Steel et al., 2018).*** Tax exemptions for both official and nongovernmental organizations (NGOs) tend to maintain the informality of assisted economies. They are particularly harmful in the case of VAT, as they break the VAT chain (collection/deduction). Local suppliers of an exempt project can completely bypass the tax authorities because their client (the exempted donor or NGO) does not carry forward the deductible VAT on the purchase of goods or services. Moreover, VAT exemptions favor importation to the detriment of local provision. Local suppliers have to support some VAT on their inputs, which they cannot deduct from their exempted customers. This tax burden translates into lower margins, higher prices, or both. VAT exemption has, then, a tax incidence on local suppliers, which may foster importation. Beyond VAT, the exemption of donors and NGOs limits tax administrations' capacity to collect relevant information on the economic activity of their suppliers. The latter may remain informal (not registered) or can underestimate significantly their turnover and their tax liability.

***The nontaxation of project aid may promote tax evasion and corruption and reduces the efficiency of their tax and customs administrations.*** This is particularly the case where exemptions are made from the standard rules and procedures of taxation, and whereby the multiplication of derogation schemes significantly complicates the work of tax and customs administrations. In turn, this weakens tax compliance efforts, and increases the risk of fraud and corruption. As with any exemption, the nontaxation of project aid leads to a break in the taxation chain, particularly for VAT, making tax control more complex. For recipient countries'

tax and customs administrations, managing, monitoring, and controlling project aid exemptions – in a context where the risk of fraud is high – constitutes a significant workload (Orlowski, 2007; MEAE, 2011) and reduces their effectiveness in a context where human and financial capacities are limited (ITD, 2005, 2006). As an example, it is difficult to ensure the traceability of exempt goods and services, where the administrations must ensure that exempted goods are actually destined for the projects they are intended for and are not sold on the domestic market competing with companies subject to the common law regime.

**Figure 5. Aid by major categories of socioeconomic sectors in 2020 (percent of total ODA)**



Sources: Calculation by authors based on OECD data (<https://www.oecd.org/dac/>)

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## 1.2. A growing willingness and commitment to improve the tax treatment of project aid

***Considering all its negative consequences, there is a growing pressure to remove tax derogation on project aid.*** The 2005 Paris Declaration on the effectiveness of ODA recommends that donors build on or strengthen existing national systems to ensure greater ownership of aid by recipient countries. The tax and customs system, although not explicitly mentioned in this Declaration, is an important part of national systems. In the late 2000s, under the impetus of the World Bank, which officially declared in 2004 that it would pay taxes provided they were “reasonable,”<sup>12</sup> donors decided to reconsider their position in the International Tax Dialogue (ITD).<sup>13</sup> More recently (2015), the Addis Ababa Action Plan concluded with the possibility of considering “not requesting exemptions for government-to-government aid projects” (see paragraph 58, United Nations, 2015). Major donors were prepared to waive exemptions on project aid, with many wanting this to be done as part of a collective initiative. Considerations within the European Union focused on the application of certain conditions, in particular that of “reasonable” and/or “effective” taxation systems being established. However, despite this change in rhetoric, the commitments made, and the relative consensus on the benefits for a move towards removing exemptions, the projects financed by external aid remain largely exempt from duties and taxes as observed in the three studied countries (Benin, Cameroon, and Kenya) and emphasized in the UN Guidelines (2021). Nevertheless, in 2017, countries that are most compliant with the Paris Declaration commitments on relying on national systems of public financial management were also the countries that declare themselves in favor of taxing project aid (see Figure 6). A few exceptions emerge, such as Belgium and Luxembourg, which are in favor of, but not very compliant with, the Paris Declaration commitments.<sup>14</sup> The use of national systems is an indicator of donor confidence in the recipient country’s system and hence positively correlated with the donor’s position on the taxation of project aid.

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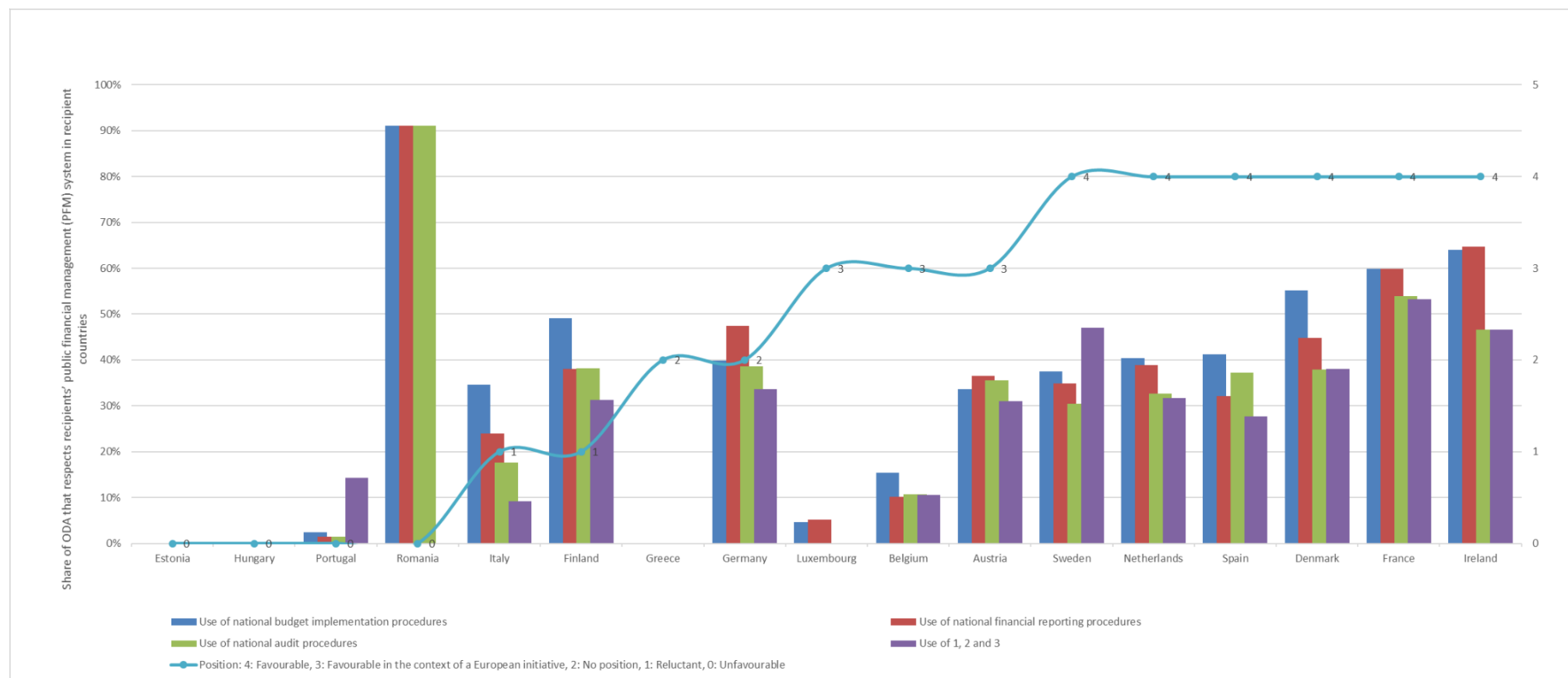
<sup>12</sup> “To eliminate these inconsistencies and distortions and reduce transaction costs in the administration of Bank-financed projects, Bank policy would be changed to provide that the Bank may finance the reasonable costs of taxes and duties associated with project expenditures” (World Bank, 2004, 11).

<sup>13</sup> The ITD is a joint initiative of the European Commission, the Inter-American Development Bank, the IMF, the OECD, the World Bank, and the Inter-American Center of Tax administrations.

<sup>14</sup> Conversely, Romania is not in favor, as it uses national procedures for 90 percent of its aid.



**Figure 6. Donors' position on the taxation of project aid and their use of the recipients' public financial management (PFM) system in 2017<sup>15</sup>**



<sup>15</sup> Caldeira *et al.* (2017) "The paradox of tax exemptions of Official Development Assistance in developing countries," *International Tax and Public Finance*, 27(1): 240–251.  
French version: La fiscalisation de l'aide publique au développement: enjeux pour l'efficacité économique des pays receveurs et la crédibilité politique des donateurs), Ferdi Policy Note B172, December.

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**Since January 2022, the OECD has published donors' position on the taxation of their aid.**<sup>16</sup> Table 9 in the appendix presents the evolution of official donor positions in 2013, 2015, and 2022, based in particular on information provided by the OECD. A number of countries – such as France, Poland, and Spain – have declared themselves in favor of abolishing project aid exemptions and still do not have a general policy in place in 2022. While France has been committed to this approach since 2015, Agence Française de Développement (French Development Agency) projects are generally still financed without taxes, duties, and levies of any kind, leaving recipient countries with no other choice than to provide the related exemptions. There are exceptions to this practice, notably for joint financing activities with MDBs such as the World Bank and the Inter-American Development Bank, as well as for most Proparco projects,<sup>17</sup> the financing of consultancy services, the financing of civil society organizations (if requested), and debt and development contracts (C2D<sup>18</sup>). On the other hand, some donor countries have effectively waived exemptions. This is notably the case for Ireland, which has waived exemptions since 2015 (with the exception of local taxation), and Norway, which has refrained from claiming exemptions since 2017. Similarly, the Netherlands started to waive exemptions in 2016 and they are no longer claimed, except on emergency humanitarian aid. Sweden only claims tax exemptions in certain countries, except on humanitarian aid, which has to be exempted from taxes and customs duties. A few countries, such as Hungary and Japan, are against the abolition of exemptions for project aid, maintaining the request for tax exemptions on project aid.

**In 2021, the United Nations published United Nations Guidelines on the Tax Treatment of Government-to-Government Aid Projects (UN guidelines).** The 13 guidelines set out are international best practices to guide negotiations between tax authorities in recipient countries and donor institutions or countries. The UN guidelines recommend avoiding any direct tax exemptions (corporate income tax [CIT] or personal income tax [PIT]) for companies operating in the recipient country or in their country of residence (guideline #4). In addition, guideline #8 suggests that exemptions or waivers granted should be subject to an estimate of revenue losses and published regularly like best practice on tax expenditures (IMF, 2018). Furthermore, guideline #9 recommends a minimum administrative expense for managing exemptions to compensate tax authorities in recipient countries. Several guidelines (## 10, 11, and 12) aim to limit the risk of tax evasion linked to exemptions, in particular exemptions on indirect tax sources, as granted to projects. In this context, the UN guidelines recommend a precise list of the goods and services that are essential to the project. Tax paid on these essential goods and services should be reimbursed.

**The tied or untied nature of the aid may also affect the aid's tax treatment and increase revenue losses.**<sup>19</sup> In addition to limiting revenue loss, the untying of aid also contributes to improving aid effectiveness. Since 2001, DAC member countries have committed to following a DAC recommendation on untying official development assistance. Nonetheless, in 2017–

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<sup>16</sup> <https://www.oecd.org/tax/tax-treatment-official-development-assistance/>

<sup>17</sup> Proparco is a subsidiary of the French Development Agency dedicated to the private sector.

<sup>18</sup> The French government developed a tool, named “C2D,” to restructure the debt of some countries (see <https://www.afd.fr/en/c2d-mechanism-relieve-indebted-countries>).

<sup>19</sup> A polar case would be a construction company located in donor country A that builds an infrastructure in recipient country B. This infrastructure is financed through a loan provided by a bank or a development agency from country A. The construction company may avoid paying any tax, especially direct tax such as Corporate Income Tax (CIT), not only in recipient country B, but also in the donor country. A question remains regarding the tax incidence of CIT in the total cost of the project.

2018, DAC member countries still allocated 57 percent of the value of project contracts financed through their aid to companies resident in their countries (OECD, 2021). Special conditions may then govern the tax treatment of project aid, in particular where the aid is tied. These agreements may grant tax advantages, particularly in terms of recipient countries being requested to provide corporate tax exemptions to the companies involved in the projects. The OECD Survey on Monitoring the Paris Declaration indicates that the share of tied aid in total aid for some donors is significant: This is the case for Austria with a proportion of 51.2 percent tied aid, Spain (30.5 percent), the United States (25.1 percent), and Korea (19.4 percent). Furthermore, Table 1 shows the degree of tying of ODA for DAC member countries. In 2020, 14 percent of DAC countries' bilateral aid was tied and some countries such as Greece (100 percent), Slovenia (78.5 percent), and Poland (76.4 percent) tied more than 75 percent of their bilateral project aid. These figures would be significantly modified if we considered non-DAC countries and especially China.

**Table 1. Degree of tied ODA for DAC member countries, 2020 (percent of bilateral aid)**

|                 | Untied | Partially untied | Tied  | Not notified |
|-----------------|--------|------------------|-------|--------------|
| Germany         | 87.3   | -                | 12.7  | 0.0          |
| Australia       | 84.2   | -                | 15.8  | 0.0          |
| Austria         | 62.5   | -                | 37.5  | -            |
| Belgium         | 88.1   | -                | 4.5   | 7.3          |
| Canada          | 95.4   | -                | 4.6   | -            |
| Korea           | 73.0   | 0.2              | 26.8  | -            |
| Denmark         | 96.0   | -                | 4.0   | -            |
| Spain           | 82.5   | 0.0              | 17.5  | 0.0          |
| United States   | 72.0   | -                | 28.0  | -            |
| Finland         | 98.8   | -                | 1.2   | -            |
| France          | 88.0   | -                | 12.0  | -            |
| Greece          | -      | -                | 100.0 | 0.0          |
| Hungary         | 48.2   | -                | 5.2   | 46.7         |
| Ireland         | 96.3   | -                | -     | 3.7          |
| Iceland         | 76.2   | 4.2              | 19.6  | -            |
| Italy           | 89.9   | 1.8              | 8.4   | 0.0          |
| Japan           | 85.2   | -                | 7.1   | 7.7          |
| Luxembourg      | 98.4   | -                | 1.6   | -            |
| Norway          | 97.7   | -                | 2.3   | -            |
| New Zealand     | 76.5   | 0.6              | 22.9  | -            |
| Netherlands     | 99.4   | -                | 0.6   | -            |
| Poland          | 23.6   | -                | 76.4  | -            |
| Portugal        | 70.8   | -                | 29.2  | -            |
| Slovak Republic | 72.4   | 0.3              | 27.3  | -            |
| Czech Republic  | 60.1   | 0.9              | 38.4  | 0.6          |
| United Kingdom  | 98.7   | -                | -     | 1.3          |
| Slovenia        | 21.5   | -                | 78.5  | -            |
| Sweden          | 84.0   | 1.3              | 14.7  | -            |
| Switzerland     | 96.9   | -                | 3.1   | 0.0          |
| TOTAL DAC       | 84.4   | 0.0              | 14.0  | 1.6          |

Source: Survey on Monitoring the Paris Declaration (Enquête sur le suivi de la Déclaration de Paris – OECD stat)

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## 2. Composition of project aid and DAC donors' position in three African countries: Benin, Cameroon, and Kenya

***We analyse the tax treatment of project aid in three African countries: Benin, Cameroon, and Kenya.*** These three countries share a common approach in terms of direct taxation (CIT and PIT) of companies involved in aid-financed projects. In accordance with the United Nations guidelines, these companies are taxed under the benchmark tax system without any particular aid-related exemptions. However, it is possible that some may benefit from special tax arrangements under, for example, the Investment Code or special economic zones. In order to assess the associated tax expenditures, indirectly related to project aid, it would be necessary to know these firms' net profit rates or at least their gross income according to the markets served. The three African countries differ in particular in the treatment of indirect taxation – VAT and customs duties – that applies in the context of project aid. Kenya waives customs duties and indirect taxes on the goods and services required for a project. Cameroon has recently changed its policy to move from exemption to taxation of project aid. In Benin, project aid is normally taxed, but indirect taxation is covered by the state through a treasury cheque mechanism called *Marché Public (MP)*. Based on interviews with donors and tax authorities in the countries studied (see Table 14 in the appendices), this study analyzes the specific treatment of indirect taxation in the three countries.

### 2.1. The composition of aid in the three countries

***The tax treatment of project aid varies according to the nature of the goods and services produced and the tax laws in force in the recipient countries.*** Table 2 shows the distribution of DAC countries' aid by sector, provided as project aid or under other modalities. In all three countries, economic and service infrastructure, education, and health spending are the sectors receiving the most external funding. However, Cameroon also receives substantial humanitarian aid (USD94.4 million or 15.8 percent of total aid support), which is exempted by international practices. Table 3 shows the sectoral breakdown of Chinese public project aid in the three countries. Infrastructure accounts for the bulk of this aid: water supply and sanitation in Benin (USD89.6 million or 61.8 percent of total Chinese aid), the development of the Kribi deep-water port in Cameroon (USD524.6 million or 67.7 percent), electricity distribution in Nairobi (USD331.3 million or 34.7 percent), and the Karimenu II dam in Kenya (USD228.2 million or 24 percent). Thus, a certain profile is emerging between Chinese funding and that of DAC member countries, with the former favoring infrastructure, and the latter also financing social spending.

***Humanitarian aid that responds to an emergency is not taxed according to United Nations guidelines.*** The health and education sectors generally receive special tax treatment regardless of the specific aid modality. In particular, these sectors are exempt from VAT and even customs duties under certain international conventions such as the Florence Convention and the Nairobi Protocol. Since the recipient countries have signed the international conventions, the tax treatment of aid under these conventions does not entail a loss of additional revenue but possibly a risk of fraud, which is very difficult to assess.

**Table 2. Allocation of aid from DAC countries to the three countries in 2019 (USD million)**

| Sector                               | Benin         |            | Cameroon      |            | Kenya           |            |
|--------------------------------------|---------------|------------|---------------|------------|-----------------|------------|
|                                      | M USD         | Percent    | M USD         | Percent    | M USD           | Percent    |
| Other social infrastructure          | 34.48         | 7.9        | 35.45         | 5.9        | 311.40          | 17.2       |
| Education                            | 48.20         | 11.1       | 110.08        | 18.4       | 80.97           | 4.5        |
| Health and population                | 79.68         | 18.3       | 69.56         | 11.6       | 460.86          | 25.5       |
| Economic infrastructure and services | 110.04        | 25.3       | 67.02         | 11.2       | 460.92          | 25.5       |
| Productive sectors                   | 35.48         | 8.2        | 36.34         | 6.1        | 145.23          | 8.0        |
| Multi-sector                         | 81.55         | 18.7       | 20.79         | 3.5        | 84.45           | 4.7        |
| Assistance                           | 31.50         | 7.2        | 119.07        | 19.9       | 52.88           | 2.9        |
| Debt-related action                  | 0.11          | 0.0        |               | 0.0        | 0.01            | 0.0        |
| Humanitarian aid                     | 0.29          | 0.1        | 94.44         | 15.8       | 166.11          | 9.2        |
| Not allocated                        | 13.93         | 3.2        | 45.41         | 7.6        | 42.87           | 2.4        |
| <b>TOTAL</b>                         | <b>435.24</b> | <b>100</b> | <b>598.14</b> | <b>100</b> | <b>1,805.68</b> | <b>100</b> |

Source: <https://www.oecd.org/dac>

***Aid provided for infrastructure is implemented by public procurement contracts (PPCs).***

The contracts are underpinned by national procurement laws, setting out a series of conditions and modalities for the contracts and the related processing of the contracts:

- In Benin, Law No. 2017-04 of 19 October 2017 on the PPC and Decree No. 2018-223 of 13 June 2018 on the powers, organization, and functioning of the Regulatory Authority;
- In Cameroon, Decree No. 2018/366 of 20 June 2018 on the PPC;
- In Kenya, the Public Procurement and Asset Disposal Act 2015, as revised in 2016, and the Finance Act of 2017.5

***According to Article 113 of the Beninese PPC, the price of the public procurement contract remunerates the contract holder by ensuring that it covers a profit and the expenses necessary to complete the project, including taxes, duties, and fees.*** However, these taxes, duties, and fees may be excluded from the contract price “by virtue of the term of trade retained.” The Cameroonian and Kenyan PPCs do not detail the components of the bid price, noting though that the Cameroonian PPC specifies that the tender documents in the context of international tenders must specify the tax clauses, the list of taxes and duties that apply, and their method of discharge (art. 85-2).

***The Beninese PPC offers a community preference (i.e. bidders domiciled in Benin or in the West African Economic and Monetary Union (WAEMU)).*** This preference (Art. 85-86) allows for a 15 percent overrun of the best alternative bid. The Cameroonian PPC also offers a preference to national companies. According to Article 51, Cameroonian companies may be selected if their offer does not exceed foreign tenders by more than 10 percent for works contracts and 15 percent for supplies contracts. However, Article 4 of the same Code authorizes certain exemptions in the context of international conventions. Thus, externally financed contracts could be exempt from this preference for Cameroonian companies, allowing certain successful bidders to declare no profit made in Cameroon on a public procurement

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contract in Cameroon. Kenya (Part XII, Art. 155 *et seq.*) also proposes a national preference, or even a reservation of public procurement contracts for national companies or companies majority owned by nationals.

***PPC legislation should evolve to integrate explicitly its tax treatment.*** In particular, the tender documents should include details of indirect taxes (whether or not they are covered) in order to facilitate the evaluation of the tax expenditure. In addition, the amount including VAT may vary significantly from the amount excluding VAT from one successful bidder to another depending on the composition of the inputs required to produce the good or service. Finally, this provision requires successful bidders to be familiar with the national tax system. This would be a first step towards accepting the taxation of their projects.

**Table 3. Allocation of Chinese aid by sector in the three countries in 2017 (USD million)**

| Benin                                    |   |        |       | Cameroon  |      | Kenya  |       |   |       |       |
|--|---|--------|-------|---|------|--------|-------|---|-------|-------|
| M USD                                    |   |        |       | %   |      | M USD  |       | %   |       |       |
| Food aid                                 |   |        |       | Grant for refugees  |      | 1.0    | 0.1%  | Grant for refugees  | 5.0   | 0.5%  |
| Emergency humanitarian response          |   |        |       |   |      |        |       | Food assistance due to drought                            | 22.2  | 2.3%  |
| Education and health                     |   |        |       | Scholarships for 50 Cameroonian students                            |      | 0.0    | 0.0%  | Loan for medical equipment                                | 78.8  | 8.3%  |
| Protecting the environment               |   |        |       | Donation to Bakossi National Park in Cameroon                       |      | 0.0    | 0.0%  |   |       |       |
| Government and civil society             | Grant to renovate the Cotonou Congress Center                   | 10.8   | 7.5%  | Grant for a feasibility study of the National Assembly building     | 14.3 | 1.3%   |       |   |       |       |
|  | Grant to the canteen project of the Ministry of Foreign Affairs | 0.1    | 0.1%  | Donations of agricultural tools and equipment                       | 0.0  | 0.0%   |       |   |       |       |
|  |   |        |       | Food donations to the Chantal Biya Foundation                       | 0.0  | 0.0%   |       |   |       |       |
| Other social infrastructure and services |   |        |       | Loan for maintenance of the Yaounde sports complex                  |      | 1.0    | 0.1%  |   |       |       |
| Communications                           |   |        |       | Loan for 5900km South Atlantic Inter Link (SAIL)                    |      | 85.0   | 7.9%  |   |       |       |
| Energy                                   |   |        |       | Loan for solar rural electrification                                |      | 123.3  | 11.5% | Loan for a 285 km transmission line, Isiolo-Garissa       | 134.0 | 14.1% |
|  |   |        |       | Loan for the 211 MW Memve'ele dam                                   |      | 141.8  | 13.2% | Loan for the Kenya Power Transmission Improvement Project | 85.2  | 8.9%  |
|  |   |        |       |   |      |        |       | Loan for electricity distribution (Nairobi Underground)   | 331.3 | 34.7% |
| Industries, mining, and construction     |   |        |       |   |      |        |       | Loan for a geophysical survey                             | 67.7  | 7.1%  |
| Other sectors                            |   |        |       | Loan for verification and certification of the e-government project |      | 32.0   | 3.0%  |   |       |       |
| Transportation and storage               |   |        |       | Loan for the Kribi deep-water port project                          |      | 148.0  | 13.8% |   |       |       |
|  |   |        |       | Credit for the Kribi port project                                   |      | 524.6  | 49.0% |   |       |       |
| Water supply and sanitation              | Loan for water supply in 3 cities                               | 89.6   | 61.8% |   |      |        |       | Loan for Karimenu II dam                                  | 228.2 | 24.0% |
| Not specified                            | Grants for an economic and technical cooperation agreement      | 44.4   | 30.6% |   |      |        |       |   |       |       |
| Total                                    |   | 144.99 |       | 1071.02   |      | 952.31 |       |   |       |       |

Source: Authors' calculations based on AidData's Global Chinese Development Finance Dataset (<https://china.aidata.org/>)

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## 2.2. The position of the main DAC donors in the three studied countries

***The issue of project aid taxation is framed by the broader set of international relations between donors and recipients.*** Table 4 shows the main donors for each country representing more than 95 percent of the total aid (budget and project) received in 2019. China, whose most recent data available are for 2017, has a leading role in Cameroon and Kenya. China has not formally committed itself to tax on its aid. Among DAC members, the World Bank with its International Development Association (IDA,<sup>20</sup> 2020), the United States, and France are major players.

***The World Bank policy relies on a comprehensive approach based on the Country Financing Parameters (CFPs).*** In forming a judgment on whether the World Bank would not finance certain taxes, staff review available information about the country's fiscal regime, including the country's economic memoranda, the public expenditure reviews, and the fiscal reports. Through the CFPs the World Bank determines if there are any taxes that are considered to be excessive, if there are excessive taxes that constitute a material share of the cost of World Bank-financed projects, and if that is the case, if this warrants special action by the World Bank to not finance the taxes. Also, the CFPs determine if there are any differential treatments of World Bank-financed activities, if these are taxed at a higher rate than the country's normal tax rate, and if there are any issues relating to tax administration that need to be considered. Also, for non-CFP countries, only certain kinds of taxes, such as customs duties and income taxes paid to consultants, are not financed. As a consequence, the World Bank finances taxes that are not considered excessive, and World Bank projects are not always exempt.

***With respect to actual current projects in the three studied countries, project aid remains largely exempted.*** These exemptions cover goods and services directly financed by ODA as well as other external aid categories (including activities financed by ODA and implemented by private sector entities).<sup>21</sup> With the exception of Sweden and the Netherlands,<sup>22</sup> the main donors in all three countries continue to require exemptions on indirect taxation related to project aid-funded projects.

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<sup>20</sup> International Development Assistance.

<sup>21</sup> This policy is set out in section 7013 of the Consolidated Appropriations Act, 2001, "Prohibition on Taxation of United States Assistance" (P.L. 116–260).

<sup>22</sup> In 2011 and 2016, respectively, Sweden and the Netherlands started to waive exemptions, except for emergency humanitarian aid.



**Table 4. Sources of external funding in the three countries and position of donors**

|                                       |  | Benin         |              |                                       |   | Cameroon       |              |                                       |  | Kenya          |              |
|---------------------------------------|--|---------------|--------------|---------------------------------------|---|----------------|--------------|---------------------------------------|--|----------------|--------------|
|                                       | Position   | M USD         | Percent      |                                       | Position  | M USD          | Percent      |                                       | Position   | M USD          | Percent      |
| <b>Total</b>                          |  | <b>804.48</b> |              |                                       |   | <b>2434.71</b> |              |                                       |  | <b>4405.63</b> |              |
| <b>China (2017)</b>                   |  | <b>144.99</b> | <b>18.02</b> |                                       |   | <b>1071.00</b> | <b>43.99</b> |                                       |  | <b>1092.31</b> | <b>24.79</b> |
| <b>DAC Members (2019)</b>             |  | <b>659.50</b> | <b>81.98</b> |                                       |   | <b>1363.71</b> | <b>56.01</b> |                                       |  | <b>3313.31</b> | <b>75.21</b> |
| International Development Association | Favorable, if taxes are reasonable (2022)  | 168.69        | 20.97        | France                                | Exemptions generally requested (2022)   | 393.11         | 16.15        | International Development Association | Favorable, if taxes are reasonable (2022)  | 1128.27        | 25.61        |
| United States                         | Exemptions generally requested (2022)  | 79.53         | 9.89         | International Development Association | Favorable, if taxes are reasonable (2022)   | 228.93         | 9.40         | United States                         | Exemptions generally requested (2022)  | 761.61         | 17.29        |
| EU institutions                       | Exemptions generally requested, but the EU has taken a decisive step toward the abolition of certain exemptions (2022) | 72.22         | 8.98         | IMF (Concessional Trust Funds)        | -   | 115.58         | 4.75         | Japan                                 | Exemptions generally requested (2022)  | 257.10         | 5.84         |
| France                                | Exemptions generally requested (2022)  | 45.84         | 5.70         | Germany                               | No position displayed (2015)  | 113.66         | 4.67         | United Kingdom                        | No position displayed (2015)   | 164.67         | 3.74         |
| Germany                               | No position displayed (2015)   | 43.62         | 5.42         | United States                         | Exemptions generally requested (2022)   | 102.56         | 4.21         | African Development Fund              | -  | 138.92         | 3.15         |
| Netherlands                           | Exemptions sometimes requested (2022)  | 28.97         | 3.60         | EU institutions                       | Exemptions generally requested, but the EU has taken a decisive step toward the abolition of certain exemptions (2022). | 85.58          | 3.52         | France                                | Exemptions generally requested (2022)  | 122.09         | 2.77         |
| African Development Fund              | -  | 28.62         | 3.56         | World Fund                            | -   | 66.97          | 2.75         | EU institutions                       | Exemptions generally requested, but the EU has taken a decisive step toward the abolition of certain exemptions (2022) | 104.20         | 2.37         |
| Switzerland                           |  | 26.85         | 3.34         | African Development Fund              | -   | 42.43          | 1.74         | World Fund                            | -  | 100.55         | 2.28         |
| Belgium                               | Ready to abandon exemptions as part of a concerted action (2015)   | 25.25         | 3.14         | Japan                                 | Exemptions generally requested (2022)   | 28.69          | 1.18         | Germany                               | No position displayed (2015)   | 94.28          | 2.14         |
| World Fund                            | -  | 24.15         | 3.00         | UNICEF                                |   | 25.61          | 1.05         | Sweden                                | Exemptions sometimes requested (2022)  | 52.12          | 1.18         |

| Benin   |   |       |         | Cameroon                                      |   |       |         | Kenya   |   |       |         |
|---|---|-------|---------|---|---|-------|---------|---|---|-------|---------|
|   | Position  | M USD | Percent |   | Position  | M USD | Percent |   | Position  | M USD | Percent |
| IMF<br>(Concessional Trust Funds)             | -   | 22.54 | 2.80    | Global Alliance for Vaccines and Immunization | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 15.68 | 0.64    | Denmark   | Favorable position renewed in 2015  | 43.60 | 0.99    |
| Canada  | -   | 17.63 | 2.19    | Central Emergency Response Fund               | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 15.64 | 0.64    | UNICEF  | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 40.76 | 0.93    |
| Japan   | Exemptions generally requested (2022)   | 12.32 | 1.53    | United Kingdom                                | No position displayed (2015)  | 14.05 | 0.58    | Canada  | -   | 37.06 | 0.84    |
| UNICEF  | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 12.14 | 1.51    | Korea   | -   | 13.52 | 0.56    | Global Alliance for Vaccines and Immunization   | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 30.28 | 0.69    |
| Global Alliance for Vaccines and Immunization | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 11.22 | 1.39    | Islamic Development Bank                      | -   | 13.28 | 0.55    | Korea   | -   | 23.45 | 0.53    |
| Saudi Arabia                                  | -   | 5.84  | 0.73    | Canada  | -   | 10.89 | 0.45    | United Nations High Commissioner for Refugees   | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 22.61 | 0.51    |
| Global Environment Facility                   | -   | 5.07  | 0.63    | Sweden  | Exemptions sometimes requested (2022)   | 9.11  | 0.37    | International Fund for Agricultural Development | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 21.81 | 0.49    |
| Islamic Development Bank                      | -   | 4.43  | 0.55    | UNHCR   | UN: Recommends considering the possibility of not requiring exemptions for government-to-government aid projects (2022) | 8.40  | 0.35    | Belgium   | Ready to abandon exemptions as part of a concerted action (2015)  | 15.86 | 0.36    |

Source: Authors' calculations based on OECD data (<https://www.oecd.org/dac/>) and AidData's Global Chinese Development Finance Dataset (<https://china.aiddata.org/>)

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### 2.3. Taxation of project aid – scope and coverage of the national tax system in the three countries

***This study focuses only on indirect duties and taxes.*** As mentioned earlier, according to the United Nations guidelines (UN, 2021), recipient countries should apply direct taxation under ordinary law to companies involved in projects financed by official development assistance, and Benin, Cameroon, and Kenya adhere to this principle. However, there are two caveats in this context. Firstly, double taxation avoidance treaties may offer opportunities to avoid this direct taxation of project profits. Secondly, separate agreements may exist linking the recipient state to donors, especially in the context of tied aid, which may grant an exemption from corporate income tax (CIT) or personal income tax (PIT).

***Indirect taxation consists of customs duties, VAT, excise duties, and registration fees.*** All three countries belong to a customs union and apply the common external tariff (CET) of each union to imports from third countries. There may also be additional levies, in particular customs levies such as the statistical fee or Community levies for WAEMU, the Community of Central African States (CEMAC), the Economic Community of West African States (ECOWAS), and the East African Community (EAC). PPCs are subject to VAT. According to a standard application of VAT, the successful bidder of a public procurement contract pays VAT on its imports and local purchases and collects the VAT when the goods or services are delivered to the state. It then pays the net VAT amount after consolidation (collected VAT minus deductible VAT). However, some countries, such as Benin, deduct VAT at the source. The client – the state, a local authority, or a public institution – does not pay the VAT due but instead pays it directly to the Treasury. This mechanism is aimed at safeguarding VAT revenues by limiting the risk of fraud in situations where the successful bidder does not remit any VAT. This risk exists for small companies with irregular economic activity. On the other hand, such a risk appears less likely for large companies, and some tax authorities, such as in Cameroon, do not apply this VAT deduction at source. Benin and Cameroon levy a 1 percent *ad valorem* registration fee on public procurement contracts. It is reduced to 0.5 percent in Cameroon on externally funded contracts. Kenya has specific registration fees that vary depending on the type or size of the company from 50,000 Kenyan Shillings (KSH) to 100,000 KSH.

***Indirect taxation affects<sup>23</sup> the price of goods or services rendered to the prime contractor in public procurement contracts with or without external funding.*** This incidence, which results in a higher price for the good or service provided, may partly explain the demand for special tax arrangements for projects financed by official development assistance. VAT and excise duties are consumption taxes and therefore borne by the client, in this case the state, a local authority, or a public institution. Similarly, excise duties normally target consumer goods that are harmful to health (alcohol, tobacco) or the environment (petroleum products, vehicles). Some countries, such as Cameroon, explicitly exclude taxes on petroleum products from any special tax arrangement and therefore apply the ordinary tax code, even to externally funded projects.

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<sup>23</sup> Tax incidence depends on competition between suppliers and on the price elasticity of demand (Fullerton and Metcalf, 2002).

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***Some methods of collecting direct income taxes may be similar to indirect taxes.*** Withholding income taxes collected at customs or some forms of direct taxation on the provision of services by non-resident companies can have the same effect as indirect taxation in terms of tax impact (i.e. they can significantly increase the price of the imported good or of the service provided).

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### 3. The mechanism of aid taxation in three countries

#### 3.1. Benin

**Benin has managed the tax waivers and exemptions associated with project aid by developing a special mechanism, called “MP,” through which the government covers the relevant taxes.** Companies participating in project aid are taxed. Subcontractors benefit from the same advantages as holders of public procurement contracts. The mechanism covers taxes and duties. It is essentially a bookkeeping exercise that balances noncash revenues and noncash expenditures. We call noncash revenues the indirect tax revenues due on goods and services used for the project, which are not paid in cash but through the special Beninese mechanism (MP). Symmetrically, noncash expenditure corresponds to the equivalent spending necessary to pay taxes due on goods and services for the project. Companies and subcontractors pay their tax not in cash but through Treasury check. At the macroeconomic level, noncash revenues and expenditures are not identified separately from other types of operations. The tax burden measured as the ratio of tax revenue to GDP may therefore be partially overestimated because it includes noncash revenues. However, these revenues do not provide any additional budgetary space because they must correspond strictly to the equivalent of noncash expenditures.

**The Beninese government has established the Mission Fiscale des Regimes d'Exception (MFRE) (Tax Mission for Special Tax Arrangements) to manage the arrangements.** This administrative service located in the tax administration oversees the transactions and ensures the coordination between the Budget Department, the Treasury Department, and the tax assessment services, namely the General Directorate of Taxes (DGI) and the General Directorate of Customs and Indirect Duties (DGDDI). When a contract financed by project aid is concluded, an authorization to take charge of tax payments is issued to the tax assessment services (DGI and DGDDI) specifically concerning this contract. The Treasury refers to this authorization as Marché Public 1 (MP1). MP1 specifies the amount of each tax taken on for the entire contract concerned. When the duties and taxes are cleared by the tax assessment services, a second authorization called Marché Public 2 or MP2 is issued, which is in line with the amounts of the corresponding MP1. Before any goods are released from customs (in the case of the DGDDI) or when VAT is paid (in the case of the DGI), the Treasury issues a final authorization (MP3) representing the payment of corresponding taxes. MP3 is accounted for as noncash expenditures. The corresponding duties and taxes are recorded as noncash revenues for an equal amount. A critical point in the Beninese procedure is that the operation can only be settled with the tax assessment authorities once an MP3 has been issued. The accumulation of outstanding debts is thus excluded, since MP3 fully covers MP2, which covers MP1. From an operational point of view, the MFRE issues domestic credits and customs credits. Domestic credits relate to purchases and transactions carried out on Beninese territory, and concern only VAT and *ad valorem* (excise) taxes. Customs credits are related to imports and concern customs duties and VAT collected at the borders.

**However, VAT coverage remains incomplete, diluting the efficiency of the mechanism of covering the taxes.** The MP 1, 2, and 3 system applies only to imports and domestic purchases. It does not include the added value produced in Benin. In addition, Decree No. 2673-c/MEF/DC/SGM/DGI/ DLC/346SGG18 of 29 August 2018 specifies that the Beninese state withholds VAT on public procurement contracts. The withholding stands 40 percent of

the total VAT invoiced for companies that appear on the list of taxable persons published periodically by the DGI, and 100 percent of the VAT amount for all other taxpayers.

***The maximum processing time for completing files is 15 days for customs credits and 10 days for domestic credits.*** This processing leads to the issuance of an MP2 credit certificate duly co-signed by the representatives of the DGI and the DGD. The credit is consumed at the competent tax or customs authorities and gives rise to the production of the MP3 certificate and the establishment of the equivalent receipt. Implementation of this procedure allows the state's coverage of duties and taxes related to externally funded projects to be monitored in detail and in real time, as well as support explicitly the reporting on revenue forgone on project-related aid.

***While the tax system is kept "exemption-free," the practice of the state covering taxes on project aid generates significant management costs.*** This additional burden on donors was mentioned during the interviews, but no precise estimate was available. An indication of the client costs, though, may be established by the workload involved in managing this fiscal coverage mechanism at the level of the MFRE.

***In 2020, the MFRE employed 17 people or 204 man-months (see Table 5).*** During the same period, the share of customs and domestic credits related to project aid represented more than half of all customs and domestic credits processed by the MFRE. As a broad measure, it can thus be assumed that half of the working time of these 17 employees (i.e. more than 100 man-months per year) is devoted to managing the exemptions granted for externally financed projects. Such costs should be assessed against the costs of running the alternative practice of exempting goods and services. The related administrative burden for the tax authorities to monitor the arrangements, including seeking the compliance of the firms, may be excessive, though no evaluation exists on the matter. Finally, it should be stressed that although this fully computerized fiscal coverage mechanism limits the possibilities of fraud, the risk of misappropriation of the goods concerned by these tax benefits remains and constitutes an additional workload for the administrations that have to control them.

**Table 5. Staff at the Mission Fiscale des Régimes d'Exception**

| Tax agents         |                |                 |       | Customs agents | Total |
|--------------------|----------------|-----------------|-------|----------------|-------|
| Tax administrators | Tax inspectors | Tax controllers | Other |                |       |
| 1                  | 6              | 2               | 6     | 2              | 17    |

Source: Fiscal policy unit of Benin and calculations of the authors

### 3.2. Cameroon

***Cameroon is one of the few project aid recipient countries to have formally committed to moving from an exemption system to ordinary taxation.*** In 2018, the Finance Law (FL) forced public procurement contracts financed by external aid to apply the ordinary registration fees. The 2019 LF went further by amending Article 115 of the General Tax Code (CGI) by adding: "Financing agreements, including for externally or jointly financed public procurement

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contracts, must imperatively be concluded inclusive of all taxes (TTC)." These contracts, which are considered inclusive of tax, would be subject to VAT and ordinary customs duties.

**However, this new legislation remains largely unimplemented.**<sup>24</sup> Financing agreements exclusive of tax concluded before 2019 continue to apply. The law cannot be retroactive. New projects are, for the moment and with only a few exceptions, still negotiated exclusive of tax.

**As in Benin, VAT and customs duties on projects financed by project aid are not exempt but are covered by the state in Cameroon. Decree No. 2003/651/PM of 16 April 2003 sets out the tax and customs regime for externally financed public procurement contracts.** Contracts are concluded inclusive of all taxes (Article 2.1). The legal taxpayer for taxes, duties, and fees due on the contract is the successful bidder (Article 3.a). VAT is nevertheless borne by the contracting authority, in this case the state or public authorities and institutions (Article 3.b). When a public procurement contract is financed by external resources, the financing agreement does not provide for the successful bidder to pay the duties and taxes; the contracting authority shall bear the duties and taxes (Article 3.c). The contracting authority is then required to make provision in its budget to cover the duties and taxes it has to pay in connection with the public procurement contract.

The following steps apply on covering taxes on externally funded projects:

- ✓ For each financing agreement, a noncash expenditure is budgeted by the Ministry of the Economy, Planning, and Land Management (MINEPAT) to cover the VAT and customs duties related to the financed project;
- ✓ When the contracts are performed, MINEPAT covers the VAT and the corresponding customs duties through counterpart funds provided by the state to the project; these counterpart funds are state noncash expenditures (as opposed to real expenditures).

The DGI or DGD collects noncash revenues (as opposed to cash or actual revenues) corresponding to this coverage, and VAT or customs duties are deemed to have been paid.

**In Cameroon, current practices of noncash revenues and expenditures may jeopardize the integrity and reliability of the national budget system.** The implementation of the principle of "ordinary taxation" of project aid should lead to reviewing this practice. Unlike in Benin, the budget allocation for these noncash expenditures (which correspond to noncash revenues) is insufficient and leads to an accumulation of outstanding debts. The Cameroonian procedure allows the tax administration (DGI) to issue a certificate of tax coverage – which is de facto a tax exemption certificate – to successful bidders, even if it has not actually collected the corresponding noncash revenue from MINEPAT. Similarly, the customs administration (DGD) can authorize the removal of goods even if the duties are not actually covered by an

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<sup>24</sup> While the new practice was being operationalized and rolled out by the authorities in Cameroon, by the end of 2020, only one agreement signed with the World Bank was inclusive of all taxes. Meanwhile, other major donors in the country, including the French Development Agency (AFD), the African Development Bank (AfDB), and the European Commission (EC), continue to seek their project aid exclusive of tax.

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actual Treasury cheque (noncash revenue). Since the corresponding budget allocations are systematically lower than the actual takeovers,<sup>25</sup> the tax and customs administrations accumulate outstanding debts. The shortfall of the budget allocations generates substantial revenue losses for the tax and customs administrations, which weakens the credibility of their revenue collection performance reporting. Besides the administrative burden, revenue losses were a major argument in favor of the 2019 reform by establishing an "inclusive of tax" requirement in financing agreements.

***The high accumulated level of outstanding debts is mainly due to an asymmetry in the budget process between revenue and expenditure forecasts.*** Revenue forecasts are essentially based on revenues collected by the tax and customs administrations in previous years. They include a growth rate on certain revenues or taxable bases. These revenue forecasts do not include the noncash revenues related to the completion of externally financed contracts. The budget expenditure forecast includes the cost of taxation on externally financed public procurement contracts. However, these noncash expenditures are considered together with other (real) public expenditures. The underallocation and consequently the outstanding debts result from this budget approach. This issue could be mitigated by including more explicitly the estimated noncash revenues and expenditures in the budget preparation process.

This fiscal coverage mechanism results in a lack of transparency in the monitoring of these tax benefits, which, de facto, are exemptions. A more rigorous traceability would require considering both the noncash revenues, which can be monitored in real time, and the outstanding debts, which may be spread over several years. The current practices increase the risk of abuse and fraud, and also make very difficult any estimate of related tax expenditure.

***This procedure entails high management costs for both donors and the tax administrations in Cameroon.*** However, a quantification of these costs was not feasible given the lack of data.

### 3.3. Kenya

***In Kenya, goods and services imported or purchased locally for use in aid-funded projects are tax exempted.*** Article 210 of the Constitution of Kenya states that an exemption or special tax arrangements cannot be established outside the law. The *Public Finance Management Act* of 2012 authorizes the Cabinet Secretary to waive a specific tax under certain conditions: (1) the National Treasury must maintain a public record of each exemption; (2) each exemption has been granted by an Act of Parliament. The *VAT Act* and the *Excise Duty Act* provide for an exemption from these two taxes for externally financed projects. In addition, goods imported under such projects are exempted from import duties by the Customs Code of the East African Community (EAC). Finally, the *Miscellaneous Fees and Levies Act* exempts aid-funded projects from paying the rail development levy and the import formalities fee.

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<sup>25</sup> Orders of magnitude reported by the authorities indicate annual budgeting requests of CFAF120 billion for the DGD and CFAF70 billion for the DGI, against an actual budgeting of CFAF20 billion by MINEPAT.



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***Treasury Circular No. 9/2018 of 18 October 2018 sets out the procedures to follow exemptions or special tax regimes related to external financing.*** It is aimed at improving the transparency of the special tax arrangements from external project aid. The National Treasury reviews the details of the exemption requests by examining the list of necessary goods and services for the project. This list must distinguish between the goods consumed by the projects, those transferred to the government, and those belonging to suppliers or subcontractors, which will be re-exported at the end of the project. The information includes the imported quantities, as well as their unitary cost and value. A customs voucher for the imported goods must be produced. This voucher is then canceled when the Customs Commissioner and the Accounting Officer confirm that the imported goods have been used correctly. For VAT exemption of services, the Accounting Officer of the Government Department or Ministry must submit a request to the National Treasury confirming that the service is necessary to complete the externally funded project. Upon receipt of this request, the National Treasury validates the exemption request and provides a recommendation to the Kenyan Revenue Authority (KRA). For the Special Operating Framework, the Accounting Officer must provide the signed approval between the investor and the government.

***Random field visits must be conducted.*** These visits, which involve the Kenyan Revenue Agency and the ministries or departments associated with the projects, are aimed at reducing the risk of fraud concerning the final destination of the goods concerned.

***When effectively applied, these procedures mitigate the abuse of the exemptions.*** At the same time though, the procedures generate significant management costs for both the donors and all the administrative services concerned. Such costs were mentioned during the interviews.

***The procedures of tax exemptions of project aid in Kenya seem less well suited to UN guidelines than the fiscal coverage mechanism applied in Benin and Cameroon.*** The current Kenyan practices do not allow any rigorous monitoring of the use of exemptions granted for externally financed projects. The close monitoring of the lists of necessary goods and services and any updates may involve excessive administrative cost for KRA and Treasury departments. Finally, revenue forgone due to the combination of exemptions and compliance issues may be high.

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## 4. Estimation of tax expenditure related to project aid

### 4.1. Assessment of the tax expenditure related to VAT on project aid

***The loss of revenue due to the tax exemptions on project aid, or the approach of tax coverage by the state, must be monitored for each category of indirect tax.*** For customs duties and excise duties, the valuation method is identical to that for other tax expenditures. This is not the case, however, for VAT. Indeed, assessing VAT tax expenditures in the context of project aid exemptions must only take into consideration the VAT paid upstream on purchases and not the net VAT because the state is the final consumer, contrary to the "classic" methodology for assessing VAT tax expenditures (Box 1). In countries that use a tax coverage system, the VAT tax expenditure is equal to the total tax credits granted by the government.

#### **Box 1. The method for assessing the budgetary cost of VAT tax expenditures<sup>26</sup>**

VAT is an indirect *ad valorem* tax, based on economic transactions and paid by a consumer other than the consumer who actually bears the cost. Indeed, companies pay the net VAT to the state, which corresponds to the difference between the amount of tax invoiced to their customers and the amount paid on their own purchases from their suppliers (intermediate consumption and investment). This deduction principle makes VAT a tax collected by taxable companies on behalf of the state but charged to the final consumer.

The deduction mechanism is only available to companies whose revenues exceed the tax liability threshold set by the tax authorities or to companies that opt to be taxable. Thus, companies that are not subject to VAT do not charge VAT to their customers, but neither do they have access to the deduction/refund mechanism for VAT paid on their purchases. They then bear the definitive VAT burden, known as the VAT "residual." Similarly, in the case of VAT exemptions, VAT on purchases becomes a definitive charge for the taxable company.<sup>27</sup>

According to these principles, the final VAT revenue (net VAT) consists solely of the VAT collected on:

- final consumer goods sold by taxable companies;
- inputs and equipment used by nontaxable companies; and
- inputs and equipment used by taxable companies selling a VAT-exempt good.

Thus, only VAT exemptions for the goods listed above result in a permanent loss of VAT revenue and can therefore be considered as tax expenditures. All VAT exemptions that do not result in a net/final loss of VAT revenue, including exemptions on inputs used by taxable companies, are therefore excluded from tax expenditures.

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<sup>26</sup> The box is based on the methodology presented in the *Guide d'évaluation des dépenses fiscales réalisé* (Tax Expenditure Assessment Guide) produced by Ferdi (Geourjon et al., 2018).

<sup>27</sup> This is not the case if the goods sold by taxable companies are taxed at zero rates, as is the case for exports. In this case, taxable companies are always entitled to claim a refund of the VAT paid on their purchases from the Treasury. This results in no revenue for the state but no additional VAT charge for these companies.

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For these reasons, the methodology for assessing domestic and customs VAT expenditures must be very rigorous in order to avoid any overestimation in the assessment of the budgetary cost of VAT tax expenditures.

The domestic VAT tax expenditure is calculated for each company benefiting from a VAT exemption and requires knowing or estimating the VAT that should have been collected by the company and the VAT that should have been deductible by the company if the revenue had not been exempted. The VAT tax expenditure will then be calculated as the net VAT difference (i.e. the difference between the amount of VAT actually paid to the state and the amount of VAT that should have been paid to the state if the product or service sold locally had not been exempt).

The VAT expenditure at customs is entered on the HS subheading using data from the DGD. Following the same logic, all taxable companies must be removed from the file extracted from the customs information system. Since it is deductible, the VAT collected by customs on imports by taxable companies does not constitute a definitive revenue for the state.

## 4.2. Benin

***Given its voucher mechanism, the assessment of loss of revenue related to project aid is easily accessible in Benin.*** The specific procedures put in place to cover duties and taxes without generating outstanding debts explain this situation. The quality of the assessment clearly benefits from the single codification of indirect tax exemptions, which is shared by the tax and customs administration.

***The codification of tax and customs exemptions was defined in 2019*** (Order 1802 of the Minister of Economy and Finance, June 25) based on the additional codes used in the customs clearance system (ASYCUDA), which were redefined jointly by the DGDDI and the DGI with the aim of linking each tax exemption to a specific code to facilitate monitoring and evaluation of the corresponding revenue losses.

***Five additional codes are used for exemptions related to external aid:*** codes 410 (externally financed public procurement contracts), 411 (mixed financing of public procurement contracts), 412 (financed contracts and projects), 420 (external financing on regional or international agreements and projects), and 421 (totally exempt regional or international agreements and projects). Only the additional codes 420 and 421 are considered in assessing the tax expenditure on project aid in the government's tax expenditures assessment report because there is no budget counterpart in this case. The authorities do not consider revenue losses classified with codes 410, 411, and 412 as tax expenditures because there is no impact on budget revenues and spending of the concerned ministries.

***Tax expenditures on project aid in Benin amounted to XAF47.5 billion, or 5 percent of tax revenues or 0.53 percent of GDP in 2020 (see Table 6).*** We broaden the notion of tax expenditure with respect to the OECD definition<sup>28</sup> by considering any reduction in liquid tax

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<sup>28</sup> According to the OECD (2010), tax expenditures are provisions of tax law, regulations, or practices that reduce or defer tax due for a small portion of taxpayers compared to the benchmark tax system. A tax expenditure is a loss of revenue for the state, while it is a reduction in tax due for the taxpayer. In the case when the state assumes

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revenue (in cash) resulting from special tax arrangements as tax expenditure. We thus include the five additional codes in this evaluation to assess the revenue loss from not taxing project aid.

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responsibility for taxation, the corresponding revenues are nonbudgeted revenues. They are offset by nonbudgeted revenues of the same amount, but which cannot finance real expenditures and therefore constitute a loss of revenue for the state.

**Table 6. Evaluation of tax expenditures on project aid in Benin in 2020**

| Additional code | Exceptional measure  | Customs VAT (XAF million) | Domestic VAT (XAF million) | Total VAT (XAF million) | Customs duties (XAF million) | Total tax expenditures (XAF million) | Percent of Total Revenues | Percent of GDP |
|-----------------|--|---------------------------|----------------------------|-------------------------|------------------------------|--------------------------------------|---------------------------|----------------|
| 410             | Externally financed public procurement contracts                 | 3,817                     | 34,644                     | 38,461                  | 2,082                        | 40,544                               | 4.28                      | 0.45           |
| 411             | Mixed financing of public procurement contracts                  | 301                       | 2,468                      | 2,769                   | 247                          | 3,016                                | 0.32                      | 0.03           |
| 412             | EDF-financed contracts and projects                              | 40                        | 431                        | 471                     | 16                           | 486                                  | 0.05                      | 0.01           |
| 420             | External financing of regional agreements and projects           | 276                       | 346                        | 621                     | 244                          | 866                                  | 0.09                      | 0.01           |
| 421             | Totally exempt regional or international agreements and projects | 327                       | 2,038                      | 2,366                   | 147                          | 2,513                                | 0.27                      | 0.03           |
|                 | <b>TOTAL</b>   | <b>4,76</b>               | <b>39,928</b>              | <b>44,688</b>           | <b>2,736</b>                 | <b>47,424</b>                        | <b>5</b>                  | <b>0.53</b>    |

Source: Tax expenditures assessment report for 2020 and MFRE tax and customs data for 2020

### 4.3. Cameroon

***The current mechanism applied in Cameroon to ensure that project aid taxes are covered makes it difficult to assess the corresponding tax expenditure and, more generally, to monitor appropriately tax and customs revenues.*** Even if they are not part included into actual revenues, noncash revenues are recorded as revenues for tax and customs administrations. They are included for the purposes of the performance assessment of these administrations in terms of revenue mobilization. With regard to customs duties, a noncash revenue arising from a transaction covered by an external financing agreement is only identified in ASYCUDA by the MINEPAT designation as the "financial manager" of the transaction – which illustrates how closely actual and noncash revenues are treated. Outstanding debts are not recorded as noncash revenues since they are, by definition, not collected.

***The assumptions of responsibility for operations (imports, local purchases) on external financing should be considered as tax expenditures because they also mean a decrease in real tax revenues.*** This is currently not the case in Cameroon. However, as the Minister of Finance stated in his preface to the latest tax expenditures assessment report published by Cameroon:

*The 2019 assessment has, nevertheless, a special character in that it highlights the amount of revenue losses generated by the system of externally or jointly financed contracts, which, although not constituting a tax expenditure in the strict sense, is nonetheless a source of lost revenue with*

regard to the amounts of taxes assumed that have not been cleared. Hence the relevance of the reform undertaken in this area by the 2019 finance law.<sup>29</sup>

**The amount of VAT and customs duty revenue losses generated by the system of externally or jointly financed contracts, assessed by the Cameroonian authorities, was XAF110.6 billion for 2019, or 0.49 percent of GDP.** The loss in customs duties amounted to XAF67.6 billion, and XAF43 billion for VAT. The outstanding debts represented XAF33 billion for the DGI and XAF59.1 billion for the DGD, for a total of XAF92.1 billion (i.e. 83.3 percent of all revenue losses). Prior to the publication of the tax expenditures assessment report by the Cameroonian authorities, a tax policy mission of the IMF's Fiscal Affairs Department estimated the tax expenditure related to external financing, based on the information provided to it, at XAF135.1 billion, or 0.59 percent of GDP for the same year. According to this estimate, the breakdown by sources suggests losses of XAF99.1 billion for VAT and XAF36 billion for customs duties. The IMF estimate also includes losses in withholding taxes<sup>30</sup> and excise duties, XAF8.8 billion and XAF0.1 billion, respectively, which, added to the losses in VAT and customs duties, gives a total of XAF144 billion for tax expenditures on externally financed projects, or 0.63 percent of GDP (see Table 7).

**Table 7. Tax expenditures on externally financed projects in 2019 (XAF billions)**

|                       | Amount assumed | Percent of total | Amount cleared or discharged | Amount to be discharged or cleared |
|-----------------------|----------------|------------------|------------------------------|------------------------------------|
| VAT                   | 99.1           | 68.8             | 44.4                         | 54.7                               |
| VAT (DGI)             | 49.4           | 34.3             | 10.0                         | 39.4                               |
| VAT (DGD)             | 49.6           | 34.5             | 34.4                         | 15.2                               |
| Customs duties (1)    | 36.0           | 25.0             | 25.0                         | 11.1                               |
| Excise duties         | 0.1            | 0.1              | 0.1                          | 0.0                                |
| Withholding taxes     | 8.8            | 6.1              | 6.1                          | 2.7                                |
| <b>Total</b>          | <b>144.0</b>   |                  | <b>75.6</b>                  | <b>68.5</b>                        |
| <b>Percent of GDP</b> | <b>0.63</b>    |                  | <b>0.33</b>                  | <b>0.30</b>                        |

1: Based on the information provided, the mission assumed a customs clearance rate of 69.3 percent common to all duties and taxes collected at customs. Source: IMF mission.

**The complexity and lack of transparency of the mechanism are reflected in the discrepancies of the estimates of revenue losses on preferential tax treatment of project aid.** Monitoring these tax exemptions is difficult, if not impossible, given the size of the

<sup>29</sup> <https://www.impots.cm/sites/default/files/publications/RAPPORTpercent20SURpercent20LESPercent20DEPENSEpercent20FISCALESPercent20-percent20FR-def.pdf>

<sup>30</sup> The withholding tax should not be covered. In fact, this withholding tax is part of direct taxation based on profits (Industrial and Commercial Profits or corporate income tax). It is collected at a rate of 10 percent on companies not registered in an accredited accounting center.

outstanding debts and the particularly high risks of fraud (abuse and misappropriation). The figure officially published by the Cameroonian authorities seems reliable. Nevertheless, there is a risk of underestimation if the assessment team uses, in this specific case of external financing, the same methodology as for other tax expenditures. This goes in particular for VAT, which consists of excluding customs exemptions of imports made by taxable enterprises as tax expenditures (see Box 1). Such estimation may prove to be wrong in the case of public procurement contracts that are awarded and paid tax-free.

***A detailed analysis of tax expenditures confirmed significant risks of fraud on goods consumed directly by households (IMF mission).*** Indeed, construction materials and machinery account for more than half of the tax expenditure related to external financing (see Table 8). The nature of these goods corresponds to the need to carry out externally financed projects. However, other goods such as telephones, microwave ovens, televisions, etc. can be easily diverted from their destination for final household consumption. The coverage of duties and taxes on these goods entails a significant risk of fraud. It should be noted that the assumption of customs duties does not seem to concern petroleum products or passenger vehicles, which can benefit from temporary importation.

**Table 8. Tax expenditures on externally financed projects in customs in 2019 (amount cleared in billions of XAF)<sup>31</sup>**

|  | Taxable value  | Customs duties | Perc.      | VAT           | Perc.      | Excise duties | Perc.      | Withholding taxes | Perc.      | Total duties and taxes | Perc.      |
|--|----------------|----------------|------------|---------------|------------|---------------|------------|-------------------|------------|------------------------|------------|
| Food products                              | 12             | 2              | 0          | 3             | 0          | -             | 0          | 1                 | 0          | 6                      | 0          |
| Chemicals                                  | 10,87          | 1,212          | 5          | 2,118         | 6          | 1             | 2          | 323               | 5          | 3,654                  | 6          |
| Plastic products                           | 9,335          | 2,375          | 10         | 2,049         | 6          | 0             | 0          | 423               | 7          | 4,847                  | 7          |
| Wood products, paper, books                | 399            | 114            | 0          | 90            | 0          | -             | 0          | 34                | 1          | 237                    | 0          |
| Fabrics, clothing                          | 1,412          | 361            | 1          | 309           | 1          | 0             | 0          | 111               | 2          | 781                    | 1          |
| Building materials                         | 47,847         | 8,202          | 33         | 9,808         | 29         | -             | 0          | 2,932             | 48         | 20,943                 | 32         |
| Machinery and parts (engines, pumps, etc.) | 47,169         | 5,431          | 22         | 9,201         | 27         | -             | 0          | 905               | 15         | 15,537                 | 24         |
| Telephones                                 | 10,09          | 1,009          | 4          | 1,942         | 6          | -             | 0          | 81                | 1          | 3,033                  | 5          |
| Electrical and electronic equipment        | 27,346         | 3,508          | 14         | 5,399         | 16         | -             | 0          | 688               | 11         | 9,596                  | 15         |
| Vehicles (tractors, trucks, etc.)          | 10,272         | 1,283          | 5          | 2,006         | 6          | 89            | 96         | 166               | 3          | 3,543                  | 5          |
| Measuring instruments and other            | 6,968          | 1,469          | 6          | 1,473         | 4          | 2             | 2          | 438               | 7          | 3,382                  | 5          |
| <b>Total</b>                               | <b>171,719</b> | <b>24,966</b>  | <b>100</b> | <b>34,398</b> | <b>100</b> | <b>93</b>     | <b>100</b> | <b>6,103</b>      | <b>100</b> | <b>65,559</b>          | <b>100</b> |
| of which                                   |                |                |            |               |            |               |            |                   |            |                        |            |
| Microwave ovens, hair dryers, etc.         | 43             | 10             |            |               |            |               |            |                   |            | 10                     |            |
| Televisions, monitors                      | 1,083          | 325            |            | 246           |            |               |            | 84                |            | 656                    |            |

Source: IMF Mission, 2019.

***The definition of a negative list of goods and services would reduce the risk of a destination's fraud.*** This list identifies goods (and services) that could not be eligible for tax exemption. This approach has already been adopted in some natural resource-rich countries,

<sup>31</sup> There is a risk of an overestimation of tax expenditures, which would result from the multiple use of building materials, machinery, vehicles, and other capital goods. These goods may be used for several projects. The related tax expenditure should theoretically be charged over several projects and potentially several years. Meanwhile, we certainly underestimate VAT tax expenditure since we do not consider locally produced added value.

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in which the mining and petroleum lists proliferate. These countries specify in the (negative) list which goods are not eligible for exemption. The concerned goods or services are generally those that are easy to divert from their initial destination towards resale on the domestic market: mobile phones, household appliances, televisions, etc. We can see that the effective taxation of these goods would not increase significantly the cost of financed projects (see Table 8).

#### 4.4. Kenya

***The budget costs of benefits for externally funded projects are not assessed in Kenya since these tax exemptions are part of the benchmark tax system.*** Project aid tax exemptions are therefore not tax expenditures and are not monitored as regards revenue forgone.

***An estimate of the revenue loss would technically be feasible, provided that customs data from the SIMBA information system and tax data are available and sufficiently detailed.*** A request was made during the interviews to obtain an extraction of customs data, but in vain. Based on a review of current tax expenditure reporting on Kenya, it would have been very difficult, if not impossible, to isolate in such a file the transactions related to external financing, as there were no additional codes (Customs Procedures Codes) available. The adoption of a new computerized customs clearance system should be able to remove this constraint. This would be an opportunity to review this coding and redefine it jointly with the KRA, with the aim of facilitating the estimation of the budgetary cost not only of project aid, but of all tax expenditures.



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## 5. The risks of distortions on profit margin and project costs due to design of tax exemptions on project aid

***A stylized example of the tax treatment of an externally financed PPC in each country illustrates potential distortions (Tables 9, 10, and 11).*** This example attempts to fill the gap in actual data regarding a particular project, especially an infrastructure project. We consider two scenarios depending on the relative share of local purchases and importations. We apply relevant indirect taxation under the standard tax regime and under the special tax regime of aid-funded project.

***We consider a contract with a net value of 150 (currency units) with two possible production scenarios depending on the breakdown between imports and local purchases.*** In scenario 1, the public procurement contract relies mainly on imports of 100 units, with local purchases accounting for 30 units. In scenario 2, the assumptions are turned around, with the value of imports being 30 units, and the value of local purchases standing at 100 units. In both scenarios, the firm has a given margin of 20 units. In addition, we made the following assumptions:

- The public procurement contract is subject to standard indirect tax treatment. Direct taxation is not included. In the standard treatment, VAT is collected on the good or service supplied to the state under the PCC legislation. Customs and registration duties are taxes borne by the successful bidder.
- Identical customs duties for the three countries are assumed, reflecting a weighted average of the application of the different common external tariffs applicable in each country. This simplified assumption does not consider significant differences in customs duties between the CEMAC and the EAC.

***We show that the three studied tax treatments of externally financed projects suppress the tax advantage of the tender, which favors local purchases over importations.*** Given the protective effect of the tariff, scenario 1 involves a higher cost of PCC since it relies more on importation. The exemption or the fiscal coverage of tariffs cancels this protective effect. This seems obvious but it highlights the distortionary effect of the current tax treatment practices in the three studied countries.

### 5.1. Benin

***In Benin, the cost of the PCC under the standard tax regime is 189.9 under scenario 1 and 188.64 under scenario 2.*** Benin applies a withholding tax of 40 percent on the collected VAT concerning the PCC. In other words, the firm collects only 60 percent of the total value of the collected VAT. This withholding mechanism involves a VAT credit, which is not refunded but increases the final price of the PCC to respectively 198.9 under scenario 1 and 196.3 under scenario 2. The difference between the two scenarios results from tariff duties, which are aimed at protecting national producers. Thus, under the assumption of constant margin of the bidders, the tender of the firm relying more on national purchases is better placed.

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***The difference in favor of local purchases (scenario 2) with respect to imports (scenario 1) vanishes with the application of the voucher mechanism in Benin.*** The fiscal coverage of duties, VAT, and registration fees reduces the final cost of PCC to its value exclusive of tax, which is 150 under both scenarios. The tax treatment of the aid project thus cancels the tax advantage providing through tariff duties.

**Table 9. Examples of the application of the tax treatment of a public procurement contract in Benin**

|                                   | Scenario 1            |                 |        |               | Scenario 2            |                 |        |               |
|-----------------------------------|-----------------------|-----------------|--------|---------------|-----------------------|-----------------|--------|---------------|
|                                   | Imports               | Local purchases | Margin | PPC value     | Imports               | Local purchases | Margin | PPC value     |
| Exclusive of tax                  | -100                  | -30             | 20     | 150           | -30                   | -100            | 20     | 150           |
| Customs duties (10%)              | -10                   |                 |        | -10           | -3                    |                 |        | -3            |
| Ded. VAT (18%) (1)                | -19,8                 | -5,4            |        |               | -5,94                 | -18             |        |               |
| Taxed project Coll. VAT (18%) (2) |                       |                 |        | 16,2          |                       |                 |        | 16,2          |
| Registr. fee (1%)                 |                       |                 |        | -1,5          |                       |                 |        | -1,5          |
| Inclusive of tax                  | -129,8                | -35,4           | 20     | 189,9         | -38,94                | -118            | 20     | 188,64        |
| VAT credit (3)                    |                       |                 |        | -9            |                       |                 |        | -7,74         |
| Inclusive of tax                  |                       |                 |        | 198,9         |                       |                 |        | 196,38        |
| Externally financed project       | -100                  | -30             | 20     | 150           | -100                  | -30             | 20     | 150           |
| Fiscal coverage                   | -29,8                 | -5,4            |        | -1,5          | -8,94                 | -18             |        | -1,5          |
|                                   | VAT and tariff duties | VAT             |        | Registr. Fees | VAT and tariff duties | VAT             |        | Registr. Fees |

1: The VAT base includes customs duties.

2: Benin's tax administration withholds 40 percent of collected VAT on PCC. The firm collects 60 percent of due VAT.

3: VAT withholding involves excess VAT credits, which are not refunded and increase the final cost of the PCC.

Source: Authors' calculations

## 5.2. Cameroon

Table 10 applies the previous example to the Cameroonian case. The cost of the PCC, including VAT, is respectively 205.80 (units of currency) under scenario 1 and 204.44 under scenario 2, since the statutory VAT rate and registration fees are higher in Cameroon. As in the Benin case, the tax treatment of the aid-funded project cancels the fiscal advantage of the scenario, in which local purchases dominate.

**Table 10. Examples of the application of the tax treatment of a public procurement contract in Cameroon**

|                                     | Scenario 1            |                 |        |               | Scenario 2            |                 |        |               |
|-------------------------------------|-----------------------|-----------------|--------|---------------|-----------------------|-----------------|--------|---------------|
|                                     | Imports               | Local purchases | Margin | PPC value     | Imports               | Local purchases | Margin | PPC value     |
| Exclusive of tax                    | -100                  | -30             | 20     | 150           | -30                   | -100            | 20     | 150           |
| Customs duties (10%)                | -10                   |                 |        | -10           | -3                    |                 |        | -3            |
| Taxed project Ded. VAT (19,25%) (1) | -21,45                | -5,85           |        |               | -6,435                | -19,5           |        |               |
| Coll. VAT (19,25%)                  |                       |                 |        | 29,25         |                       |                 |        | 29,25         |
| Registr. fee (0,5%)                 |                       |                 |        | -0,75         |                       |                 |        | -0,75         |
| Inclusive of tax                    | -131,45               | -35,85          | 20     | 205,8         | -39,435               | -119,5          | 20     | 204,44        |
| Externally financed project         | -100                  | -30             | 20     | 150           | -100                  | -30             | 20     | 150           |
| Fiscal coverage                     | -31,45                | -5,85           |        | -0,75         | -9,435                | -19,5           |        | -0,75         |
|                                     | VAT and tariff duties | VAT             |        | Registr. Fees | VAT and tariff duties | VAT             |        | Registr. Fees |

1: The VAT base includes customs duties.

Source: Authors' calculations

### 5.3. Kenya

The Kenyan system of generalized tax exemptions on project aid involves a similar effect to that in Benin and Cameroon by suppressing the fiscal advantage of the scenario, in which local purchases dominate (see Table 11). The registration fees are nominal in Kenya and are not considered here.

**Table 11. Examples of the application of the tax treatment of a public procurement contract in Kenya**

|  |                      | Scenario 1 |                 |        |           | Scenario 2 |                 |        |           |
|--|----------------------|------------|-----------------|--------|-----------|------------|-----------------|--------|-----------|
|  |                      | Imports    | Local purchases | Margin | PPC value | Imports    | Local purchases | Margin | PPC value |
| Exclusive of tax                             |                      | -100       | -30             | 20     | 150       | -30        | -100            | 20     | 150       |
| Taxed project                                | Customs duties (10%) | -10        |                 |        | -10       | -3         |                 |        | -3        |
|  | Ded. VAT (16%) (1)   | -17,6      | -4,8            |        |           | -5,28      | -16             |        |           |
|  | Coll. VAT (16%) (2)  |            |                 |        | 16,2      |            |                 |        | 16,2      |
|  | Registr. Fee         |            |                 |        | 0         |            |                 |        | 0         |
| Inclusive of tax                             |                      | -127,6     | -34,8           | 20     | 188,6     | -38,28     | -116            | 20     | 187,48    |
| Externally financed project (full exemption) |                      | -100       | -30             | 20     | 150       | -100       | -30             | 20     | 150       |

1: The VAT base includes customs duties.

Source: Authors' calculations

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**Table 12. Potential losses of tax revenues due to exemption from project aid in 2019**

| Country                           | Indirect revenues (percent of GDP) | Total revenues (percent of GDP) | ODA (million of current dollars) | GDP (million current dollars) | ODA (percent of GDP) | Losses total revenues (percent of GDP) | Loss indirect revenues (percent of GDP) | Country          | Indirect revenues (percent of GDP) | Total revenues (percent of GDP) | APD (million of current dollars) | GDP (million current dollars) | ODA (percent of GDP) | Losses total revenues (percent of GDP) | Loss indirect revenues (percent of GDP) | indirect (percent of GDP) |
|-----------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|----------------------|--|---|------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|----------------------|--|---|---------------------------|
| Albania                           | 14.91                              | 27.50                           | 344.32                           | 15,156.43                     | 2.27                 | 0,625                                  | 0,339                                   | Kyrgyzstan       | 15.05                              | 32.47                           | 415.96                           | 8,271.11                      | 5.03                 | 1,633                                  | 0,757                                   |                           |
| Antigua and Barbuda               | 13.39                              | -                               | 17.59                            | 1,605.94                      | 1.10                 | -                                      | 0,147                                   | Lesotho          | 9.03                               | 49.12                           | 153.69                           | 2,514.15                      | 6.11                 | 3,002                                  | 0,552                                   |                           |
| Argentina                         | 16.97                              | -                               | 73.11                            | 524,819.74                    | 0.01                 | -                                      | 0,002                                   | Madagascar       | 8.13                               | 14.21                           | 695.84                           | 13,760.03                     | 5.06                 | 0,719                                  | 0,411                                   |                           |
| Armenia                           | 11.78                              | 23.40                           | 141.62                           | 12,457.94                     | 1.14                 | 0,266                                  | 0,134                                   | Mali             | 8.91                               | 16.39                           | 1,499.57                         | 17,070.87                     | 8.78                 | 1,440                                  | 0,782                                   |                           |
| Azerbaijan                        | 8.38                               | 39.72                           | 87.41                            | 47,112.94                     | 0.19                 | 0,074                                  | 0,016                                   | Mauritania       | 1.01                               | 2.27                            | 448.38                           | 7,354.43                      | 6.10                 | 0,139                                  | 0,061                                   |                           |
| Belarus                           | 16.50                              | 44.68                           | 119.10                           | 60,031.26                     | 0.20                 | 0,089                                  | 0,033                                   | Mauritius        | 13.91                              | 23.57                           | 69.18                            | 14,181.95                     | 0.49                 | 0,115                                  | 0,068                                   |                           |
|                                   |                                    |                                 |                                  |                               |                      |  |   |                  |                                    |                                 |                                  | 1,222,408.2                   |                      |  |   |                           |
| Belize                            | 19.94                              | -                               | 33.79                            | 1,915.90                      | 1.76                 | -                                      | 0,352                                   | Mexico           | 6.27                               | 22.36                           | 549.30                           | 0                             | 0.04                 | 0,010                                  | 0,003                                   |                           |
| Bhutan                            | 6.88                               | 30.14                           | 107.92                           | 2,446.87                      | 4.41                 | 1,329                                  | 0,303                                   | Moldova          | 14.61                              | 30.52                           | 230.51                           | 11,456.73                     | 2.01                 | 0,614                                  | 0,294                                   |                           |
| Bolivia                           | 15.15                              | -                               | 728.85                           | 40,287.65                     | 1.81                 | -                                      | 0,274                                   | Mongolia         | 16.43                              | 31.38                           | 333.52                           | 13,178.09                     | 2.53                 | 0,794                                  | 0,416                                   |                           |
| Bosnia and Herzegovina            | 18.88                              | 43.06                           | 355.95                           | 20,177.41                     | 1.76                 | 0,760                                  | 0,333                                   | Montenegro       | 20.80                              | 40.98                           | 156.21                           | 5,504.17                      | 2.84                 | 1,163                                  | 0,590                                   |                           |
| Botswana                          | 4.32                               | 27.96                           | 85.75                            | 16,914.25                     | 0.51                 | 0,142                                  | 0,022                                   | Morocco          | 12.85                              | 31.46                           | 818.20                           | 118,096.23                    | 0.69                 | 0,218                                  | 0,089                                   |                           |
| Brazil                            | 14.78                              | 40.58                           | 444.83                           | 1,916,933.71                  | 0.02                 | 0,009                                  | 0,003                                   | Myanmar          | 5.04                               | 18.55                           | 1,712.05                         | 67,144.73                     | 2.55                 | 0,473                                  | 0,129                                   |                           |
| Burkina Faso                      | 10.87                              | 21.32                           | 1,108.79                         | 15,890.07                     | 6.98                 | 1,488                                  | 0,758                                   | Nicaragua        | 9.87                               | -                               | 353.76                           | 13,025.24                     | 2.72                 | -                                      | 0,268                                   |                           |
| Cabo Verde                        | 14.58                              | 26.96                           | 84.28                            | 1,966.50                      | 4.29                 | 1,155                                  | 0,625                                   | Niger            | 8.15                               | 17.74                           | 1,199.52                         | 12,808.66                     | 9.36                 | 1,662                                  | 0,763                                   |                           |
| Cambodia                          | 14.19                              | 23.85                           | 783.30                           | 24,571.75                     | 3.19                 | 0,760                                  | 0,452                                   | Nigeria          | 1.39                               | 8.51                            | 3,304.95                         | 397,190.48                    | 0.83                 | 0,071                                  | 0,012                                   |                           |
| Cameroon                          | 9.48                               | 17.98                           | 1,165.34                         | 39,973.84                     | 2.92                 | 0,524                                  | 0,276                                   | North Macedonia  | 13.61                              | 29.07                           | 170.18                           | 12,683.07                     | 1.34                 | 0,390                                  | 0,183                                   |                           |
| Congo, Democratic Republic of the | 3.61                               | 10.84                           | 2,513.93                         | 47,146.00                     | 5.33                 | 0,578                                  | 0,192                                   | Pakistan         | 8.46                               | 15.21                           | 1,386.93                         | 314,567.54                    | 0.44                 | 0,067                                  | 0,037                                   |                           |
| Congo, Republic of the            | 4.37                               | 24.82                           | 146.57                           | 13,670.04                     | 1.07                 | 0,266                                  | 0,047                                   | Panama           | -                                  | 19.80                           | 39.10                            | 64,929.41                     | 0.06                 | 0,012                                  | -                                       |                           |
|                                   |                                    |                                 |                                  |                               |                      |  |   | Papua New Guinea | 4.86                               | 16.27                           | 790.33                           | 24,109.51                     | 3.28                 | 0,533                                  | 0,159                                   |                           |
| Costa Rica                        | 8.76                               | 25.02                           | 99.36                            | 62,420.17                     | 0.16                 | 0,040                                  | 0,014                                   | Paraguay         | 7.76                               | 17.40                           | 164.51                           | 40,225.45                     | 0.41                 | 0,071                                  | 0,032                                   |                           |
| Ivory Coast                       | 7.88                               | 14.50                           | 960.01                           | 58,011.47                     | 1.65                 | 0,240                                  | 0,130                                   | Peru             | 8.61                               | 19.76                           | 450.76                           | 222,574.70                    | 0.20                 | 0,040                                  | 0,017                                   |                           |
| Dominican Republic                | 8.84                               | -                               | 89.30                            | 85,555.38                     | 0.10                 | -                                      | 0,009                                   | Philippines      | 8.45                               | 19.23                           | 547.34                           | 346,842.09                    | 0.16                 | 0,030                                  | 0,013                                   |                           |
| Ecuador                           | -                                  | 36.13                           | 404.01                           | 107,562.01                    | 0.38                 | 0,136                                  | -                                       | Rwanda           | 9.07                               | 24.75                           | 1,119.66                         | 9,640.28                      | 11.61                | 2,875                                  | 1,053                                   |                           |
| Egypt                             | 8.35                               | 20.70                           | 2,080.85                         | 249,713.00                    | 0.83                 | 0,172                                  | 0,070                                   | Saint Lucia      | 13.64                              | -                               | 8.56                             | 2,065.13                      | 0.41                 | -                                      | 0,057                                   |                           |
| El Salvador                       | 11.06                              | 26.10                           | 253.44                           | 26,020.85                     | 0.97                 | 0,254                                  | 0,108                                   | Samoa            | 20.88                              | 33.52                           | 128.10                           | 821.29                        | 15.60                | 5,228                                  | 3,256                                   |                           |
| Eswatini                          | 6.29                               | 29.64                           | 121.30                           | 4,665.42                      | 2.60                 | 0,771                                  | 0,163                                   | Senegal          | 10.59                              | 20.04                           | 998.94                           | 23,116.70                     | 4.32                 | 0,866                                  | 0,458                                   |                           |
| Ethiopia                          | 6.25                               | -                               | 4,941.03                         | 84,269.35                     | 5.86                 | -                                      | 0,367                                   | Serbia           | 17.96                              | 41.49                           | 1,070.02                         | 50,640.65                     | 2.11                 | 0,877                                  | 0,379                                   |                           |
| Fiji                              | 16.91                              | 27.08                           | 120.96                           | 5,581.37                      | 2.17                 | 0,587                                  | 0,367                                   | Solomon Islands  | 17.66                              | 23.98                           | 195.56                           | 1,574.60                      | 12.42                | 2,978                                  | 2,193                                   |                           |
| Georgia                           | 13.64                              | 26.51                           | 589.86                           | 17,599.70                     | 3.35                 | 0,888                                  | 0,457                                   | South Africa     | 11.24                              | 37.40                           | 921.14                           | 404,842.12                    | 0.23                 | 0,085                                  | 0,026                                   |                           |
| Guatemala                         | 6.86                               | -                               | 399.40                           | 73,208.58                     | 0.55                 | -                                      | 0,037                                   | Tajikistan       | 13.27                              | 29.09                           | 403.57                           | 7,765.01                      | 5.20                 | 1,512                                  | 0,690                                   |                           |
| Guyana                            | 11.65                              | -                               | 104.18                           | 4,787.64                      | 2.18                 | -                                      | 0,254                                   | Togo             | 11.39                              | 20.09                           | 296.96                           | 7,112.20                      | 4.18                 | 0,839                                  | 0,475                                   |                           |
| Haiti                             | -                                  | 10.45                           | 997.16                           | 16,455.03                     | 6.06                 | 0,633                                  | -                                       | Tunisia          | 13.74                              | 34.90                           | 806.78                           | 42,570.27                     | 1.90                 | 0,661                                  | 0,260                                   |                           |
| Honduras                          | 12.48                              | 31.41                           | 664.90                           | 23,900.44                     | 2.78                 | 0,874                                  | 0,347                                   | Turkey           | 10.76                              | 31.87                           | 1,189.80                         | 778,471.90                    | 0.15                 | 0,049                                  | 0,016                                   |                           |
| India                             | -                                  | 19.72                           | 2,462.01                         | 2,701,111.78                  | 0.09                 | 0,018                                  | -                                       | Uganda           | 7.30                               | 12.05                           | 1,945.47                         | 32,927.03                     | 5.91                 | 0,712                                  | 0,431                                   |                           |
| Indonesia                         | 6.15                               | 14.77                           | 962.63                           | 1,042,271.53                  | 0.09                 | 0,014                                  | 0,006                                   | Ukraine          | 16.21                              | 39.54                           | 1,223.17                         | 130,891.05                    | 0.93                 | 0,369                                  | 0,151                                   |                           |
| Jamaica                           | 17.73                              | -                               | 100.21                           | 15,730.79                     | 0.64                 | -                                      | 0,113                                   | Uzbekistan       | 12.17                              | 28.66                           | 557.96                           | 52,633.14                     | 1.06                 | 0,304                                  | 0,129                                   |                           |
| Jordan                            | 12.63                              | 38.67                           | 2,526.01                         | 42,932.11                     | 5.88                 | 2,275                                  | 0,743                                   | Vanuatu          | 17.28                              | 35.85                           | 130.93                           | 914.73                        | 14.31                | 5,131                                  | 2,473                                   |                           |
| Kazakhstan                        | -                                  | 21.43                           | 79.93                            | 179,339.99                    | 0.04                 | 0,010                                  | -                                       | Vietnam          | 9.73                               | 19.49                           | 1,647.77                         | 245,213.69                    | 0.67                 | 0,131                                  | 0,065                                   |                           |
| Kenya                             | 8.77                               | 18.54                           | 2,490.93                         | 92,202.96                     | 2.70                 | 0,501                                  | 0,237                                   |                  |                                    |                                 |                                  |                               |                      |  |   |                           |

Sources: Authors' calculations – Government Revenue Dataset (UNU-wider), Official Development Dataset (OECD).

**Table 13. Donor positions with respect to the taxation of aid in 2013, 2015, and 2022**

| Donor     | Year | Position of the donor in relation to the taxation of the aid   | Detailed position of the donor  | Source of information   | Examples of projects |
|-----------|------|--|---|---|----------------------|
| Australia | 2022 | No general policy.   | Australia requires tax exemptions of various kinds from each of its development partners. These tax exemptions are set out in framework agreements concluded between Australia and partner countries, and include income tax on Australian staff or project teams involved in Australian government-funded activities in the host country; value-added taxes (VAT) on project supplies or professional and technical equipment purchased locally or abroad; customs duties and other levies on supplies and equipment from abroad; and customs duties and other levies on motor vehicles and personal and household goods.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/australie.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/australie.htm</a>   |                      |
| Austria   | 2013 | Ready to abandon exemptions as part of a European initiative, provided that there is good governance in the receiving countries. Exceptions depending on the nature of the aid (humanitarian aid in particular). | Austria is in principle willing to accept that developing countries give up tax exemptions, but only in the cases mentioned under a), provided this is done on the basis of a joint initiative together with other donor countries and preferably as an EU initiative. We would encourage the EC to take the lead in initiating a discussion on this issue. (A) Bilateral development cooperation with the exception of those instruments/countries listed under (b) for partner countries with good governance standards. For the following instruments/countries we would oppose that developing countries give up tax exemptions:<br>- for humanitarian aid – tax exemptions are justified and should remain in place.<br>- for trade-related aid/soft loans regulated under the OECD Arrangement on Officially Supported Export Credits – which should remain exempted.<br>- for tax exemptions based on double taxation conventions – these should remain unaffected.<br>- for partner countries failing to meet even commonly accepted minimum requirements concerning good governance standards. | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_at_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_at_final_en.pdf</a> |                      |
|           | 2015 | Position renewed.  | Austria would be willing to grant tax exemption on projects only for countries with good governance standards. For certain types of instruments (e.g. humanitarian aid, aid for trade), developing countries should keep the exemptions in place. Austria would encourage the EU to take the lead position in international discussions on the subject.   | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-austria-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-austria-2016_en</a>   |                      |
| Belgium   | 2013 | Open to discussion. IN favour of a gradual end of the exemptions in the framework of a common decision.  | The federal budget for development cooperation is open to discussions about giving up tax exemptions (on ODA programmes).<br><br>However, this should be done progressively. The problem cannot be tackled in isolation, since the lion's share of revenue loss due to tax exemptions and other kinds of tax incentives takes place outside the externally financed aid projects. This issue is clearly linked to broader PCD discussions.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_be_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_be_final_en.pdf</a> |                      |



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|          | 2015 | Ready to abandon exemptions as part of concerted action. Humanitarian aid must remain an exception. | Belgium is considering waiving tax exemption on projects within a concerted action. Humanitarian aid should continue to be exempted.  | <a href="http://ec.europa.eu/europ_eaid/financing-development-donor-profile-belgium-2016_en">http://ec.europa.eu/europ_eaid/financing-development-donor-profile-belgium-2016_en</a>   |  |
|          | 2019 | Practices aid without exemptions but includes tax financing in some agreements.                     | Belgium has adopted a similar policy to that of the AFD, by including tax financing in some aid agreements for several years.   |   |  |
| Bulgaria | 2013 | Participates in the evaluation and impact assessment of tax expenditures.                           | Bulgaria could provide technical assistance in the preparation of a report on tax expenditures, including evaluation and analysis of the impact of tax expenditures on budget revenues.   | <a href="http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_bg_final_en.pdf">http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_bg_final_en.pdf</a> |  |
|          | 2015 | A priori unfavorable. Follows the policy established at European level.                             | Bulgaria is not ready to give up tax exemption on projects: In this area Bulgaria will follow the policy established across Europe.   | <a href="http://ec.europa.eu/europ_eaid/financing-development-donor-profile-bulgaria-2015_en">http://ec.europa.eu/europ_eaid/financing-development-donor-profile-bulgaria-2015_en</a>   |  |
| Canada   | 2022 | No general policy defined.  | The Canadian government has not yet defined a general policy on tax exemptions for ODA. However, ODA tax exemptions often apply when bilateral treaties are in force. These exemptions are generally requested, but not systematically.<br><br>Global Affairs Canada considered defining a general policy after undertaking a review of current international aid practices | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/canada.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/canada.htm</a>   |  |
| China    | 2022 | A priori unfavorable to the abolition of exemptions.  | China does not seem to accept abandoning the exemption from funding.  | <a href="https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en">https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en</a>   |  |
| Croatia  | 2013 | Not applicable.   | Croatian Tax Administration is not providing this kind of assistance to other countries.  | <a href="http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_hr_final_en.pdf">http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_hr_final_en.pdf</a> |  |

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|                | 2015 | Unfavorable opinion for projects in Croatia.                    | Croatia is not willing to give up tax exemption on projects for development in Croatia, whilst it pays various taxes on the implementation of projects in recipient countries.  | <a href="http://ec.europa.eu/euop_eaid/financing-development-donor-profile-croatia-2016_en">http://ec.europa.eu/euop_eaid/financing-development-donor-profile-croatia-2016_en</a>   |  |
| Cyprus         | 2013 | No position. Will follow the decisions of other donors.         | It is up to the lead donor, as Cyprus Aid implements projects only through the delegated cooperation method.  | <a href="http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_cy_final_en.pdf">http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_cy_final_en.pdf</a> |  |
|                | 2015 | Position renewed.   | Country does not grant tax exemption on projects: CyprusAid only co-funds projects led by other donors. It would be their choice to either maintain tax exemption or not.   | <a href="http://ec.europa.eu/euop_eaid/financing-development-donor-profile-cyprus-2015_en">http://ec.europa.eu/euop_eaid/financing-development-donor-profile-cyprus-2015_en</a>   |  |
| Czech Republic | 2013 | Ready to abandon exemptions as part of a collective initiative. | We are ready to consider joining a potential international initiative to give up tax exemption. However, such an initiative would have to involve all donors and partner countries.   | <a href="http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_cz_final_en.pdf">http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_cz_final_en.pdf</a> |  |
|                | 2015 | Position renewed.   | Country would grant tax exemption on projects if general agreement on this issue were reached between all donor and partner countries.  | <a href="http://ec.europa.eu/euop_eaid/financing-development-donor-profile-czech-republic-2016_en">http://ec.europa.eu/euop_eaid/financing-development-donor-profile-czech-republic-2016_en</a>   |  |
| Denmark        | 2013 | Has waived VAT exemptions since 2012.                           | Denmark decided in 2012 to stop requiring VAT exemptions for goods and services purchased in partner countries as part of Danish development assistance to the country.   | <a href="http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_dk_final_en.pdf">http://ec.europa.eu/euop_eaid/what/development-policies/financing_for_development/documents/ac_countability-report-2013/2013_questionnaire_dk_final_en.pdf</a> |  |
|                | 2015 | Favorable position renewed.                                     | Denmark would be willing to abandon tax exemption on projects: A study on costs and benefits of tax exemption was finalized in Tanzania. Denmark decided in 2012 to stop requiring VAT exemptions for goods and services purchased in partner countries as part of Danish development assistance to the country. Denmark believes that EU should not maintain any tax exemptions on aid projects. | <a href="http://ec.europa.eu/euop_eaid/financing-development-donor-profile-denmark-2016_en">http://ec.europa.eu/euop_eaid/financing-development-donor-profile-denmark-2016_en</a>   |  |

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| Estonia | 2013 | Unfavorable opinion (argument of the disincentive effect on domestic resource mobilization). | Estonian position is that aid projects in general should not generate stable tax revenues for the beneficiary governments. If this is the case, the beneficiary governments remain interested in keeping that tax income as long as possible – instead of making efforts to phase out from foreign aid.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_ee_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_ee_final_en.pdf</a> |  |
|         | 2015 | Position renewed.  | Estonia does not grant tax exemption on projects: Aid projects in general should not generate stable tax revenues for the beneficiary governments, except personal income and other relevant official taxes of development workers, provided that these are not deducted elsewhere. There is some risk that especially LDCs with many aid workers remain interested in keeping that tax income as long as possible – instead of making efforts to phase out from foreign aid.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-estonia-2015_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-estonia-2015_en</a>   |  |
| Finland | 2013 | Under discussion. No clear-cut position.   | This issue is under discussion but no decisions have been made.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_fi_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_fi_final_en.pdf</a> |  |
|         | 2015 | Reluctant outside of a global initiative that also includes recipient countries.             | Finland is not willing to give up tax exemption on projects. According to the Finnish government, giving up tax exemptions should only be done as a joint effort, preferably by all partners, including south-south partners. Finland believes that a differentiated approach could also be necessary, depending on the quality of public financial management in recipient countries, as taxing aid translates de facto into turning part of aid into budget support. The background thinking refers to the direction that tax exemptions on goods and works should be abolished. Imported goods should pay normal custom fees. If applied, the customs procedure should be simple enough to accommodate timely deliveries. It would be difficult to abolish tax exemptions on services (especially long-term TA), as it is a significant element in attracting experts to long-term positions and because of international treaties involving diplomatic privileges as defined by the Vienna Convention. | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-finland-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-finland-2016_en</a>   |  |

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| France | 2013 | Already provides aid without exemptions in some cases. | In line with the international community's commitment to more effective aid, France has already committed to this approach through its debt reduction and development contracts, which finance tax-inclusive programmes. | <a href="http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_fr_final_en.pdf">http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_fr_final_en.pdf</a> | AFD IN CAMEROON. Implementation of the Debt Reduction and Development Agreement (C2D): Contrary to current practices and in the spirit of the Paris Declaration on Aid Harmonization, the C2D is based on an all-tax-inclusive implementation, a full budgeting of resources and expenditures related to the different programmes (to ensure interventions are transparent), the absence of project units outside Cameroonian administrations, and limited use of ad hoc or special financial circuits. Similarly, procurement procedures are aligned with national procedures.<br><br>Ref: page 3<br><a href="http://www.afd.fr/webdav/site/afd/shared/POR_TAILS/PUBLICATIONS/PLAQUETTES/C2D_Cameroun.pdf">http://www.afd.fr/webdav/site/afd/shared/POR_TAILS/PUBLICATIONS/PLAQUETTES/C2D_Cameroun.pdf</a> |
|        | 2015 | Not mentioned.   |  | <a href="http://ec.europa.eu/europeaid/financing-development-donor-profile-france-2016_en">http://ec.europa.eu/europeaid/financing-development-donor-profile-france-2016_en</a>   |   |

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|         | 2022 | Exemptions generally requested.       | AFD projects are generally financed exclusive of taxes, duties, and levies of any kind, although there are exceptions to this policy. Currently, exceptions to this ODA policy include: joint financing activities with MDBs such as the World Bank and the Inter-American Development Bank, most Proparco projects, financing of consulting services, financing of civil society organizations (if requested), and Debt Reduction and Development Contracts (C2D). | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/france.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/france.htm</a>   |  |
| Germany | 2013 | No position but open to discussion.   | Due to the discussion about this topic in international fora, this question should be addressed through a coherent and common international approach. Tax exemption itself is a core business of ministries of finance.   | <a href="http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_de_final_en.pdf">http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_de_final_en.pdf</a> |  |
|         | 2015 | Not mentioned.                        |   | In process  |  |
| Greece  | 2013 | Not mentioned.                        |   | <a href="http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_el_final_en.pdf">http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_el_final_en.pdf</a> |  |
|         | 2015 | Not mentioned.                        |   | <a href="http://ec.europa.eu/europa/aid/financing-development-donor-profile-greece-2016_en">http://ec.europa.eu/europa/aid/financing-development-donor-profile-greece-2016_en</a>   |  |
|         | 2022 | Exemptions never/rarely requested.    | Exemptions are not requested except for emergency humanitarian aid, in which case they cover all customs duties and taxes.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/grece.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/grece.htm</a>   |  |
| Hungary | 2013 | Open to discussion at European level. | It can be discussed at EU level.  | <a href="http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_hu_final_en.pdf">http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_hu_final_en.pdf</a> |  |

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|         | 2015 | Unfavorable opinion.   | Hungary is not willing to give up tax exemption on projects.   | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-hungary-2015_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-hungary-2015_en</a>   |  |
|         | 2022 | No general policy.   | Hungary does not have a policy on ODA tax exemptions.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/hongrie.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/hongrie.htm</a>   |  |
| Ireland | 2013 | Open to discussion at European level.                                    | Ireland is prepared to discuss and consider this issue with other EU member states.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_ie_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_ie_final_en.pdf</a> |  |
|         | 2015 | Already waives exemptions on its projects. Exception for local taxation. | Ireland does not usually claim tax exemption on projects. In the case of taxes or duties levied by local governments, the corresponding amounts should not be deducted from the ODA financing.   | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-ireland-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-ireland-2016_en</a>   |  |
| Italy   | 2013 | No clear-cut position at present. Open to multilateral discussion.       | The theme needs to be examined further. Caution is necessary. Giving up exemptions may result in unconditional support for partner countries' budgets, with no clear benchmarks, rather than increasing ODA. In any case, a multilateral cross-country approach would be desirable to attain a general understanding among the donor community on what kind of exemptions could be admitted. | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_it_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_it_final_en.pdf</a> |  |
|         | 2015 | Rather unfavorable. Preference for direct budget supports.               | Italy is cautious about granting tax exemption on projects and would rather provide budget support.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-italy-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-italy-2016_en</a>   |  |

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| Japan     | 2022 | Exemptions generally requested.  | With respect to ODA loans, Japan generally requires any borrowing country to exempt: (1) JICA (Japan International Cooperation Agency) from all taxes and levies in the borrowing country in connection with the loan and interest thereon; (2) Japanese enterprises acting as suppliers, subcontractors, and/or consultants, from all taxes and levies in the borrowing country in connection with income derived from the provision of goods and/or services under the loan; (3) Japanese enterprises acting as suppliers, subcontractors, and/or consultants, from any customs duties and other taxes provided for in the borrowing country in connection with the import and re-export of their own materials and equipment necessary to carry out the project; and (4) Japanese employees involved in carrying out the project, from any taxes and levies provided for in the borrowing country on income received from Japanese companies acting as suppliers, subcontractors, and/or consultants in carrying out the project. In the case of grant aid, Japan generally requires recipient governments to take the necessary measures to ensure exemption from customs duties, domestic taxes, and other fiscal levies provided for in the recipient country in connection with the goods and/or services procured with the grants. When exemptions are provided for, they are requested in all countries. | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/japon.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/japon.htm</a>   |  |
| Latvia    | 2013 | Rather unfavorable given the low estimated impact for projects with limited budget.      | Currently Latvia provides most of its bilateral assistance in the form of technical assistance. Bearing in mind that these are comparatively small-scale projects (less than EUR 50,000 per project) we believe that giving up tax exemptions on projects would not provide substantial contribution to the tax revenue of the partner countries.   | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing-for-development/documents/accountability-report-2013/2013_questionnaire_lv_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing-for-development/documents/accountability-report-2013/2013_questionnaire_lv_final_en.pdf</a> |  |
|           | 2015 | Not mentioned.   |   | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-latvia-2015_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-latvia-2015_en</a>   |  |
| Lithuania | 2013 | In favor of discussion within the EU.  | Lithuania has no experience in this area; therefore the coordinated EU approach would be desirable.   | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing-for-development/documents/accountability-report-2013/2013_questionnaire_lt_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing-for-development/documents/accountability-report-2013/2013_questionnaire_lt_final_en.pdf</a> |  |
|           | 2015 | Unfavorable opinion for its projects but in favor of a coordinated effort within the EU. | Lithuania is not ready to give up tax exemptions on financed projects through its external aid but is in favor of a coordinated effort by the EU in these matters.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-lithuania-2015_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-lithuania-2015_en</a>   |  |

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|-------------|------|---|--|---|--|
| Luxembourg  | 2013 | Ready to abandon exemptions.                                    | We would be ready to participate in a common initiative implemented by several donors accompanied by a political dialogue with respective partner countries. | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_lu_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_lu_final_en.pdf</a> |  |
|             | 2015 | Favorable as part of an internationally coordinated initiative. | Luxembourg would be ready to grant tax exemption on projects on the basis of an internationally coordinated approach.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-luxembourg-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-luxembourg-2016_en</a>   |  |
| Malta       | 2013 | Not considered at this time.                                    | At the moment it is not foreseen.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_mt_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_mt_final_en.pdf</a> |  |
|             | 2015 | Unfavorable opinion.  | Malta is not ready to give up tax exemption on projects.   | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-malta-2015_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-malta-2015_en</a>   |  |
| Norway      | 2022 | Exemptions never/rarely requested.                              | Norway has refrained from applying for tax exemptions since 2017.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/norvege.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/norvege.htm</a>   |  |
| Netherlands | 2013 | Favorable as part of a global initiative.                       | The Netherlands is prepared to consider further steps in a joint donor context (EU, OECD, UN).   | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_nl_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_nl_final_en.pdf</a> |  |
|             | 2015 | Started waiving exemptions in January 2016.                     | The Netherlands started waiving tax exemptions (import duties, VAT) on ODA-financed projects on 1 January 2016.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-netherlands-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-netherlands-2016_en</a>   |  |



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|          | 2022 | Exemptions sometimes requested.   | Since the beginning of 2016, the Netherlands has refrained from requesting tax exemptions for import or customs duties and Value Added Tax (VAT) on goods and services provided under new government-to-government ODA projects and programmes or acquired locally via missions, as well as for private sector instruments. FMO, the Netherlands Development Finance Company, has also stopped applying for such tax exemptions. This waiver does not apply to emergency aid, humanitarian aid, or income tax. Tax exemptions for import duties are allowed in the event of a major failure of the recipient countries' tax structures. When the Netherlands participates in a multi-donor trust fund or co-financing through multilateral organizations, the rules of the trust fund or multilateral organizations apply. | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/pays-bas.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/pays-bas.htm</a>   |  |
| Poland   | 2013 | Not mentioned.  |  | <a href="http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_pl_final_en.pdf">http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_pl_final_en.pdf</a> |  |
|          | 2015 | In favor of abolishing exemptions.  | Moreover, in March 2015 Poland together with Denmark, Sweden, and the Netherlands submitted a joint letter to EU High Representative Mogherini and Commissioner Mimica concerning abolishing tax exemptions in government-to-government aid. This initiative is aimed at strengthening domestic resource mobilization in the countries where aid is provided.  | <a href="http://ec.europa.eu/europa/aid/financing-development-donor-profile-poland-2016_en">http://ec.europa.eu/europa/aid/financing-development-donor-profile-poland-2016_en</a>   |  |
|          | 2022 | No general policy.  | As an exception, it was requested to exempt fire-fighting equipment and fire trucks transferred to Ukraine under Polish ODA from taxes and duties.   | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/pologne.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/pologne.htm</a>   |  |
| Portugal | 2013 | Unfavorable opinion (argument of trade-off between project aid and de facto budget support, which is feared to be misused). | This could result in a decrease in the funding for projects and it is not guaranteed that tax revenue collected by partner countries would be channeled to the intended purposes.  | <a href="http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_pt_final_en.pdf">http://ec.europa.eu/europa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_pt_final_en.pdf</a> |  |
|          | 2015 | Opinion unfavorable but open to discussion in the EU.   | Portugal is not willing to give up tax exemption on projects: interest and availability to join EU efforts after thorough analysis.  | <a href="http://ec.europa.eu/europa/aid/financing-development-donor-profile-portugal-2016_en">http://ec.europa.eu/europa/aid/financing-development-donor-profile-portugal-2016_en</a>   |  |

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| Romania  | 2013 | Under discussion.   | So far we have not imposed tax exemptions for external aid projects. Nevertheless, we are negotiating an agreement with Moldova, where Moldova has required such exemptions.  | <a href="http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_ro_final_en.pdf">http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_ro_final_en.pdf</a> |  |
|          | 2015 | Not in favor of a generalized waiver of exemptions.   | Romania believes that tax exemptions may be useful to the implementation of various programs and projects in our beneficiary countries. In this context, giving up tax exemptions on development cooperation programs should be initiated from a contextual perspective and not generalized.  | <a href="http://ec.europa.eu/europ_eaid/financing-development-donor-profile-romania-2015_en">http://ec.europa.eu/europ_eaid/financing-development-donor-profile-romania-2015_en</a>   |  |
| Slovakia | 2013 | Open to discussion but raises the risks of potential poor governance.   | The coordination of activities on aid projects at the EU level would be desirable. However, it should be subject to more in-depth technical and political discussions. Tax exemptions should not be provided to jurisdictions with harmful tax regimes or to those providing space for tax evasion.   | <a href="http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_sk_final_en.pdf">http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_sk_final_en.pdf</a> |  |
|          | 2015 | Ready to abandon exemptions.  | In principle, the Slovak Republic is not in favor of tax exemptions on development-related projects. The country's position is aligned with the Base Erosion and Profit Shifting initiative championed by the OECD. It has also voiced support for an empowered UN Tax Committee to ensure greater coordination on tax matters at the global level. | <a href="http://ec.europa.eu/europ_eaid/financing-development-donor-profile-slovak-republic-2016_en">http://ec.europa.eu/europ_eaid/financing-development-donor-profile-slovak-republic-2016_en</a>   |  |
| Slovenia | 2013 | Already provides aid without exemptions   | Slovenia does not apply any tax exemptions on projects financed through its external aid.   | <a href="http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_sl_final_en.pdf">http://ec.europa.eu/europ_eaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_sl_final_en.pdf</a> |  |
|          | 2015 | Already provides aid without exemptions. In favor of initiatives by member states and not a coordinated effort within the EU. | Slovenia does not apply tax exemption on projects. Slovenia is opposed to a coordinated effort at the European level: The member states are free to choose any tax systems they consider most appropriate according to their preferences, since the tax policy has not been harmonized at the EU level.   | <a href="http://ec.europa.eu/europ_eaid/financing-development-donor-profile-slovenia-2016_en">http://ec.europa.eu/europ_eaid/financing-development-donor-profile-slovenia-2016_en</a>   |  |

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| Spain  | 2013 | No clear-cut position at present.                                   |   | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_se_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_se_final_en.pdf</a> |  |
|        | 2015 | Ready to abandon exemptions.  | Spain would be willing to give up tax exemption on financed projects through the country's external aid.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-spain-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-spain-2016_en</a>   |  |
|        | 2022 | No general policy, but in favor of not requesting exemptions.       | The Spanish Ministry of Foreign Affairs and AECID (Spanish Agency for International Development Cooperation) have not yet defined a general policy on ODA tax exemptions. The Ministry is developing such a policy following a pilot study to analyze current practices in development cooperation. At present, there is not enough information available to assess the extent of requests for exemptions, and it was therefore decided to proceed with the transparency exercise (pilot study).<br>In general, Spain and Spanish cooperation prefer not to request tax exemptions for ODA projects based on the priorities set out in the UN guidelines on tax exemptions for ODA projects (e.g. starting with VAT and customs duties). Spain's future policy on tax exemptions will take into account the evolution of the EU position on this issue. | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/espagne.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/espagne.htm</a>   |  |
| Sweden | 2013 | Rather unfavorable but open to discussions on a case-by-case basis. | Taxation of grant aid could be difficult to motivate, especially to Swedish taxpayers. However, it could be considered on a case-by-case basis if requested by a partner country and undertaken with other donors.  | <a href="http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_se_final_en.pdf">http://ec.europa.eu/euopa/eaaid/what/development-policies/financing_for_development/documents/ac-countability-report-2013/2013_questionnaire_se_final_en.pdf</a> |  |
|        | 2015 | Already provides aid without exemptions.                            | Sweden is willing to give up tax exemption on projects: Sweden does not claim tax exemptions in its agreement on general terms and procedures with Kenya, signed in 2010. It is currently considering whether this decision will be expanded to new agreements with other countries. An EU-coordinated approach is desirable. It is to be discussed what such a joint approach should include. As a minimum, it should include an agreement to stop claiming exemptions on customs duties and VAT.  | <a href="http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-sweden-2016_en">http://ec.europa.eu/euopa/eaaid/financing-development-donor-profile-sweden-2016_en</a>   |  |

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|                | 2022 | Exemptions sometimes requested.    | Sweden applies for tax exemptions on VAT and import duties in connection with ODA projects in some partner countries. Tax exemptions were a standard clause in procedural agreements signed at country level until 2011. Since 2011, Sweden has generally not claimed tax exemptions in new or renewed procedural agreements. Sweden has not defined a list of countries where it continues to claim tax exemptions, nor has it defined an approach applicable to all its programs. In accordance with generally accepted practice, humanitarian aid is exempt from taxes and customs duties and is not affected by procedural and other agreements between Sweden and partner countries. Sweden will also take into account the guidelines of the United Nations Subcommittee on Tax Treatment of ODA (ECOSOC) when deciding on future tax arrangements with partner countries. | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/suede.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/suede.htm</a>   |  |
| Switzerland    | 2022 | Generally asks for tax exemptions. | <p>The general rules applied to Swiss staff in permanent representations (embassies, cooperation offices, consular posts) are the Vienna Convention on Diplomatic Relations and the Vienna Convention on Consular Relations; they govern tax exemptions on the income of Swiss personnel, the premises of permanent representations abroad and the import of goods for personal use.</p> <p>In addition, there are bilateral framework agreements with partner countries that govern international cooperation projects and programs. They generally provide for tax exemptions for the importation of goods and for the purchase of local goods and services necessary for the implementation of projects and programs (value-added taxes and customs duties).</p>  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/suisse.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/suisse.htm</a>   |  |
| United Kingdom | 2013 | No clear-cut position at present.  | The UK has not taken a position on this issue.   | <a href="http://ec.europa.eu/euopa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_uk_final_en.pdf">http://ec.europa.eu/euopa/aid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_uk_final_en.pdf</a> |  |
|                | 2015 | Not mentioned.                     |  | <a href="http://ec.europa.eu/euopa/aid/financing-development-donor-profile-united-kingdom-2016_en">http://ec.europa.eu/euopa/aid/financing-development-donor-profile-united-kingdom-2016_en</a>   |  |

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|                | 2019 | Practices aid without exemptions, but includes tax financing in some agreements. | The United Kingdom has adopted a similar policy to that of the AFD, and has for several years included tax financing in some aid agreements.            | <a href="https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https%3A%2F%2Fwww.un.org%2Fdevelopment%2Fdesa%2Ffinancing%2Fsites%2Fwww.un.org.development.desa.financing%2Ffiles%2F2020-04%2F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usg=AOvVaw0CQWwTenFhYC0r_g4pVyQw%20See%20page%2014%2F35%20et%2015%2F35">https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https%3A%2F%2Fwww.un.org%2Fdevelopment%2Fdesa%2Ffinancing%2Fsites%2Fwww.un.org.development.desa.financing%2Ffiles%2F2020-04%2F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usg=AOvVaw0CQWwTenFhYC0r_g4pVyQw%20See%20page%2014%2F35%20et%2015%2F35</a> |  |
| European Union | 2013 | Ready to abandon exemptions.   | The current practice regarding Commission projects for tax exemptions is moving in this direction: framework contracts FWC BENEf 2009 and FWC COM 2011. | <a href="http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_european_commission_final_en.pdf">http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_questionnaire_european_commission_final_en.pdf</a>   |  |
|                | 2015 | Ready to abandon exemptions.   | The EU Commission is willing to give up tax exemption on projects.  | <a href="http://ec.europa.eu/europeaid/financing-development-donor-profile-eu-institutions-2016_en">http://ec.europa.eu/europeaid/financing-development-donor-profile-eu-institutions-2016_en</a>   |  |

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|               | 2022 | Exemptions generally requested, but the EU has moved decisively to abolish certain exemptions. | The Commission requests tax exemptions in several partner countries. The provisions on tax exemptions are heterogeneous and not all cover all taxes and customs duties. Tax exemption provisions mainly concern indirect taxes (VAT, customs duties, or equivalent taxes), but few provisions concern taxes on income or profits that may be borne by the entities or persons implementing the project. The ACP-EU Partnership Agreement, supported by the European Development Fund (EDF), stipulates that African, Caribbean, and Pacific (ACP) countries must apply to EU-funded contracts a tax and customs regime that is no less favorable than that applied to the most favored nations, and lists the taxes that must be exempted by partner countries and the taxes that are eligible and must be paid. Taxes not included in this list are subject to the current national legislation of the ACP country concerned. The tax and customs regimes provided for under the ACP-EU partnership continue to apply to the implementation of investment decisions/implementing measures financed by the EDF.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/commission-europeenne.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/commission-europeenne.htm</a>   |   |
| United States | 2022 | Exemptions generally requested.  | Exemptions are requested on all taxes and customs duties (excluding income tax payable by local staff). These exemptions cover goods and services directly financed by ODA as well as other allocated external aid (including ODA-funded activities implemented by private sector entities). This policy is defined in Section 7013 of the Consolidated Appropriations Act of 2001, entitled "Prohibition on Taxation of United States Assistance" (P.L. 116-260). When exemptions are provided for, they are requested in all countries.  | <a href="https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/etats-unis.htm">https://www.oecd.org/fr/fiscalite/traitement-fiscal-aide-publique-au-developpement/etats-unis.htm</a>   |   |
| World Bank    |      | Favorable, if the costs are reasonable   | <p>24. Rationale. The Bank has treated taxes as an ineligible expenditure because they are considered transfer payments, representing revenues to the borrower, rather than expenditures. In addition, taxes that are imposed by the borrowing country are normally payable in local currency. Finally, there has been a concern that taxes may not be a "reasonable cost," especially in countries with excessively high taxes. [...]</p> <p>26. Rationale reconsidered. Taxes and duties are part of the normal cost structure of economic activity; indeed, government agencies and public enterprises or organizations themselves normally pay taxes. Governments rarely exempt their purchases and imports from taxes; such a policy would be distortionary, creating an unequal and anticompetitive playing field between state-owned enterprises and the private sector. The level of transaction costs generated by the current approach, and the incentive toward differential treatment and economic distortions through exemptions, can be avoided in the context of the proposed new approach to cost sharing in Bank lending.</p> <p>27. Proposed Policy Changes. To eliminate these inconsistencies and distortions and reduce transaction costs in the administration of Bank-financed projects, Bank policy would be changed to provide that the Bank may finance the reasonable costs of taxes and duties associated with project expenditures.</p> | <a href="http://www1.worldbank.org/operations/eligibility/documents/March26ExpenditureEligibilityBoardPaper.pdf">http://www1.worldbank.org/operations/eligibility/documents/March26ExpenditureEligibilityBoardPaper.pdf</a> see pages 10 et 11<br><a href="http://www1.worldbank.org/operations/eligibility/index.html">http://www1.worldbank.org/operations/eligibility/index.html</a> | <p>Implementation of the new cost eligibility rules by the World Bank in 2005:</p> <p><a href="http://siteresources.worldbank.org/INTOPEELI/64168360-1132754290708/20734079/ExpenditureEligibilityFY05AnnualReport.pdf">http://siteresources.worldbank.org/INTOPEELI/64168360-1132754290708/20734079/ExpenditureEligibilityFY05AnnualReport.pdf</a></p> |

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|  | 2022 | Favorable, if taxes are reasonable. | <p>In 2000, the World Bank began to agree to pay taxes on the projects it finances, "if these taxes are reasonable."</p> <p>In general, financial projects are still exempt, but the discourse has changed in favor of the taxation of aid. For consistency reasons, cooperation and derogation regimes should not be mixed.</p> | <a href="https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en">https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en</a><br><br><a href="https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usg=AOvVaw0CQWwTenFhYC0r_g4pVyQw">https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usg=AOvVaw0CQWwTenFhYC0r_g4pVyQw</a> See page 14/35 |  |
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| African Development Bank | Favorable, if the costs are reasonable. | <p>On March 19, 2008, the Boards of Directors approved a new policy on expenditures eligibility for Bank Group financing (Board Document ADB/BD/WP/2007/106/Rev.1 and ADF/BD/WP/2007/72/Rev.1). The objective of the new policy is to strengthen the Bank's focus on results through greater (i) alignment of the expenditure eligibility policy with the development priorities of regional member countries (RMC) and (ii) harmonization with other sister institutions, particularly the World Bank. The new policy also seeks to tailor expenditure eligibility to the specific context of each RMC through the introduction of Country Financing Parameters (CFPs).</p> <p>Currently noneligible expenditures for which eligibility has been proposed, taxes and duties. The principle of exempting Bank-financed projects from taxes and customs duties will remain valid. However, it is proposed that the Bank Group should be able to waive this principle and, on a case-by-case basis, finance taxes and duties associated with project expenditures, if it is satisfied that: (i) the country's tax system has a reasonable level of tax and duty rates; and (ii) the taxes and duties do not constitute a significant proportion of project costs or are not specifically directed at Bank-financed projects, activities or expenses.</p> | <a href="http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/30732326-EN-ELIGILIB-EXPENDITURES-POLICY-VERSION-II.PDF">http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/30732326-EN-ELIGILIB-EXPENDITURES-POLICY-VERSION-II.PDF</a> | <p>Example of Liberia: In summary, taxes and duties have been assessed as reasonable, and the Bank may finance taxes and duties associated with project expenditures. The application of this general approach will be subject to ongoing monitoring of tax policy and how taxes are applied to Bank-financed projects. At the project level, the Bank would consider whether taxes and duties constitute an excessively high share of project costs.</p> <p>Reference: Page 116: <a href="http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Liberia_20JAS20BAD-WB202008-201120Eligibility20to20the20Fragile20States20Facility.pdf">http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Liberia_20JAS20BAD-WB202008-201120Eligibility20to20the20Fragile20States20Facility.pdf</a></p> |
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| Asian Development Bank |  | Favorable, if the costs are reasonable. | <p>28. Indirect taxes (including import duties, value-added taxes, and sales taxes) levied on specific goods, works, and services are ineligible for ADB financing, as specified in OM section H3/BP, issued on 23 December 2004. ADB has treated taxes and duties as ineligible expenditures on the grounds that they (i) represent, potentially, transfer payments to borrowers; (ii) are denominated in local currency; and (iii) can be distorted by high tax rate regimes. ADB's development partners used these same grounds in the past.</p> <p>29. In practice, however, ADB has treated taxes and duties inconsistently, which at times has complicated the financing plan of projects and even created temporary budgetary distortions in DMCs. One example of such an inconsistency concerns taxes paid inside the territory of the borrower and taxes paid outside. The former are ineligible for ADB financing; the latter are often financed. Inconsistencies and distortions of this type at the project level have an impact on the financing plan, especially with value-added taxes. The ineligibility of taxes and duties for ADB financing increases counterpart financing requirements. Such financing might not be available when needed, potentially leading to implementation delays and even project viability problems. Increasing counterpart financing this way does not automatically increase DMC commitment or ownership. Finally, tax exemptions on projects funded by development agencies can put undue pressures on the DMC's budget.</p> <p>30. The cost of taxes and duties related to project expenditures should be eligible for ADB financing. However, ADB financing of such taxes and duties should be limited to a reasonable amount. The definition of "reasonable" would be based on an assessment of the specific fiscal/tax regime in the country. This would be followed by an evaluation of whether the overall tax and duties "line" is pitched at an excessive and material level, or whether this falls generally within what is regarded as a normal threshold. The inclusion of taxes and duties would be based on an assessment of the transparency, competitive neutrality, and fiscal sustainability of the arrangements proposed. Country teams might also produce and assess regional and international emerging market benchmarks for this purpose. At the project level, this evaluation would focus on the share of the investment plan accounted for by this item. The value should not represent an excessive share of the investment plan. Further, it should be applicable strictly to ADB-financed projects, activities, and expenditures. Taxes and duties would also be judged as to whether they are material and relevant to the success of the project. For operations involving parallel co-financing with bilateral development partners, the eligibility of taxes and duties for a co-financed portion of the financing plan would adhere to the rules of these partners. Some might have restrictions in this area. The Asian Development Fund IX arrangements do not prevent the adoption of this reform.</p> | <p>Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach, 2005: <a href="http://www.adb.org/documents/cost-sharing-and-eligibility-expenditures-Asian-development-bank-financing-new-approach">http://www.adb.org/documents/cost-sharing-and-eligibility-expenditures-Asian-development-bank-financing-new-approach</a></p> | <p>Assessment made in 2011 on the application of the new eligibility rules by the bank: only 7 projects were concerned. Reference: <a href="http://www.adb.org/sites/default/files/in63-11.pdf">http://www.adb.org/sites/default/files/in63-11.pdf</a> page 7 and appendix 5</p> |
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|----|------|---|---|--|--|
|    | 2019 | Favorable, if taxes are reasonable.   | Asian Development Bank (ADB) has adopted a policy similar to that of the UN, allowing for the financing of reasonable and nondiscriminatory fiscal costs.   | <a href="https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usq=AOvVaw0CQWwTenFhYC0r_g4pVyQw">https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usq=AOvVaw0CQWwTenFhYC0r_g4pVyQw</a> See page 14/35 |  |
| UN | 2022 | Advocates considering the possibility of not requiring exemptions for government-to-government assistance projects. | <p>Presenting the UN Committee nonbinding guidelines adopted in October 2020. The forerunner of the Committee was the International Tax Dialogue (ITD) including the OECD, WB, IMF, and UN, which highlighted the problems caused by tax exemptions. The committee issued a first draft in 2007, which was held back for 10 years. The project was relaunched in 2015 with the Addis Ababa Action Plan. The text concludes with "Considering the possibility of not requiring exemptions for government-to-government aid projects." It is a very cautious sentence, reflecting possible differences of opinion on the matter. The new guidelines have already been approved, and include 13 principles, among which:</p> <ul style="list-style-type: none"> <li>• Donor countries and their aid agencies are encouraged to refrain from applying for tax exemptions, except when recipient countries have standards that are inconsistent with international standards or are of concern.</li> <li>• Transparency: Recipients and donors must make public their tax and/or exemption policies. The fiscal/tax treatment must be made public.</li> <li>• Examples of mechanisms and good practices, and finally (principle 13) ... donor countries are encouraged to observe the rules of recipient countries with regard to withholding of tax at source.</li> </ul> | <a href="https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en">https://www.ciat.org/ciatblog-the-taxation-of-official-development-aids-oda-a-debate-reactivated-by-the-covid-19-crisis/?lang=en</a>  |  |

|                                 |      |   |   |  |  |
|---------------------------------|------|---|---|--|--|
| USAID                           |      | Not in favor of a comprehensive initiative. In favor of bilateral negotiations. | <p>General Policy. USAID has a long-standing policy that USAID assistance should be exempt from host government taxes and custom duties Pub. L 480. This general tax policy does not apply to Pub. L. 480, Title II commodities. 22 CFR Part 211 requires a tax and custom exemption for Pub. L. 480, Title II commodities to be used in direct distribution programs. Title II commodities that are to be monetized do not require an exemption. For tax guidance regarding Title II commodities, refer to the relevant Framework Bilateral and other agreements and arrangement with the host government, and see 22CFR 211.c.</p> <p>Implementation. This policy is not self-executing. USAID must negotiate exemptions with the host government. USAID implements this policy by negotiating tax exemption clauses in Framework Bilaterals, Strategic Objective Grant Agreements (SOAGs), Limited Scope Grant Agreements (LSGAs), and other agreements and arrangements with the host government. See ADS 349, International Agreements, and ADS 350, Grants to Foreign Governments, for model tax exemption clauses. Because USAID has only the exemptions it negotiates with the host government, the agreement(s) or other arrangements with the host government are what govern, not this general policy. The extent and application of tax exemptions vary from country to country and can vary from agreement to agreement in a particular country.</p> | ADS Chapter 155. Privileges, Immunities, and Tax Exemptions USAID (2004): <a href="http://transition.usaid.gov/policy/ads/100/155.pdf">http://transition.usaid.gov/policy/ads/100/155.pdf</a>  |  |
| Inter-American Development Bank |      | Favorable, if the costs are reasonable.   |   | Inter-American Development Bank (2004).  |  |
|                                 | 2019 | Favorable, if taxes are reasonable.   | The Inter-American Development Bank (IDB) has adopted a policy similar to that of the UN, allowing for the financing of reasonable and nondiscriminatory fiscal costs.  | <a href="https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usq=AOvWaw0CQWwTenFhYC0r_g4pVyQw">https://www.google.com/url?sa=t&amp;rct=j&amp;q=&amp;esrc=s&amp;source=web&amp;cd=&amp;cad=rja&amp;uact=8&amp;ved=2ahUKEwiF6vbezcd4AhUmhM4BHcuFB0wQFnoECDUQAQ&amp;url=https3A2F2Fwww.un.org2Fdevelopment2Fdesa2Ffinancing2Fsites2Fwww.un.org.development.desa.financing2Ffiles2F2020-042F18STM_CRP6-Tax-Treatment-ODA-Projects.pdf&amp;usq=AOvWaw0CQWwTenFhYC0r_g4pVyQw</a> See page 14/35 |  |

Source: Dataset compiled by FERDI.

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**Table 14.** *Interviews conducted with donors and tax administrations in the countries studied*

| Country  | Institution          |
|----------|----------------------|
| Benin    | IMF, World Bank, AFD |
| Cameroon | IMF, World Bank, AFD |
| Kenya    | IMF, World Bank, AFD |