

DJIBOUTI: ADMINISTRATIVE AND BUDGETARY DIFFICULTIES STEMMING FROM EXEMPTIONS ON FOREIGN-FUNDED PROJECTS

In Djibouti, tax expenditures are mainly related to the following regimes:

- Investment code
- Free zone code
- Foreign military forces established in Djibouti
- Foreign-funded projects

My intervention will exclusively focus on exemptions for foreign-funded projects

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Sectors targeted by foreign-funded development projects

- Private sector promotion
- Education
- Health
- Public governance
- Water and sanitation
- Social protection and development
- Tourism
- Gender promotion
- Industry
- Employment
- Financial sector
- Energy
- Sustainable development
- Mines
- Transports
- Primary sector
- Telecommunication
- Housing
- Youth and sports

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Agencies ensuring the foreign funding of developing projects in Djibouti

- Arab Fund for Economic and Social Development
- Saudi Fund for Development
- United States Agency for International Development (USAID)
- Exim Bank China
- World Food Programme (WFP)
- UNICEF
- UNESCO
- HCR
- European Union
- UNDP
- UN office for project services
- African Development Bank (BAD)
- Exim Bank India
- PTA BANK
- World Bank
- French Development Agency (AFD)
- Islamic Development Bank (IDB)
- Kuwaiti Fund for Arab Economic Development
- International Fund for Agricultural Development (IFAD)
- Food and Agriculture Organization (FAO)
- KFW – Entwicklungs bank
- Turkish cooperation
- Italian cooperation
- Joint United Nations Programme on HIV/AIDS (UNAIDS)
- WHO
- United Nations Population FUND
- Gauthi Alliance
- Global Environment Facility (GEF)
- Exim Banque Turque
- Comesa

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State Budget and financing

• Cumulated State budget from 2013 to 2017	
2013	111 962 620 000 FD
2014	135 199 284 678
2015	127 139 417 000
2016	125 099 651 363
2017	<u>120 825 000 000</u>
TOTAL	620 225 973,041 FD

• Value of donors-funded projects for the same period	
TOTAL	571 343 304 404 FD

...i.e. more than **USD 3 billion**

...which equals to **92% of the State budget for the same period**

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Nature of tax exemptions

Tax exemptions on donor-funded projects are varied:

- The importation of goods is often exempted from custom duties, VAT and other indirect taxes
- Goods bought locally are exempted from VAT or taxes on goods and services
- Profits made by suppliers and service providers are exempted from income tax
- Employees are or can be exempted from income tax or taxes on salaries and wages
- Very often, non-resident taxpayers intervening in these projects are exempted from withholding tax

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Budgetary costs of tax exemptions

VAT exemptions on imports intended for public contracts with external financing

Description	Imports realized by enterprises which have been awarded public contracts with external financing, concluded for an amount net of tax, are exempted from VAT		
Tax type	VAT		
Main beneficiaries	Beneficiaries of development projects and enterprises which have been awarded public contracts with external financing		
Measure type	Exemption		
Legal reference	General Tax Code (CGI), article 176 17)		
Objective	Reduce the tax burden on development projects and simplify tax administration		
Data's source	Data on public contracts with external financing provided by Customs and/or the Ministry of Foreign Affairs and International Cooperation		
Estimation method	Estimation of the loss of earnings from customs' data when applying the standard VAT rate to the imports' amount		
	2015	2016	2017
Number of beneficiaries			
Loss of earnings (in million FD)		2 744	

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VAT exemptions on supplies intended for holders of public contracts with external financing

Description	Supplies sold by a direct supplier to an enterprise which has been awarded public contracts with external financing, are subject to tax at a rate of 0%		
Tax type	VAT		
Main beneficiaries	Beneficiaries of development projects and enterprises which have been awarded public contracts with external financing		
Measure type	Exemption		
Legal reference	General Tax Code (CGI), article 187 d)		
Objective	Reduce the tax burden on development projects and simplify tax administration		
Data's source	Data on public contracts with external financing provided by donors		
Estimation method	Estimation of the loss of earnings from donors' data when applying the standard VAT rate to the exempted markets' amounts		
	2015	2016	2017
Number of beneficiaries			
Loss of earnings (in million FD)		3 375	

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Domestic consumption tax (TIC) exemption on imports intended for public contracts with external financing

Description	Supplies imported by an enterprise which has been awarded public contracts with external financing, and intended for these public contracts, are exempted from domestic consumption tax		
Tax type	Domestic consumption tax (TIC)		
Main beneficiaries	Beneficiaries of development projects and enterprises which have been awarded public contracts with external financing		
Measure type	Exemption		
Legal reference	Customs Code, article 227-2		
Objective	Reduce the tax burden on development projects and simplify tax administration		
Data's source	Data on public contracts with external financing provided by Customs		
Estimation method	Estimation of the loss of earnings from Customs' data when applying the standard domestic consumption rate to the imports' amounts		
	2015	2016	2017
Number of beneficiaries			
Loss of earnings (in million FD)		4 440	

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Excise duty exemption on imports intended for public markets with external financing			
Description	Supplies imported by an enterprise which has been awarded public contracts with external financing, and intended for these public contracts, are exempted from excise duty		
Tax type	Excise duty		
Main beneficiaries	Beneficiaries of development projects and enterprises which have been awarded public contracts with external financing		
Measure type	Exemption		
Legal reference	Customs Code, article 227-2		
Objective	Reduce the tax burden on development projects and simplify tax administration		
Data's source	Data on public contracts with external financing provided by Customs		
Estimation method	Estimation of the loss of earnings from Customs' data when applying the standard excise duty rate to the imports' amount		
	2015	2016	2017
Number of beneficiaries			
Loss of earnings (in million FD)		3	

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Administrative difficulties stemming related to exemptions' management

- **Creation of a service dealing with exemptions within the General Directorate for Customs and Indirect Taxation (DGDDI)**
- **Around 20 agents for these cases**
- **Heavy process as several administrations intervene: the External financing Division in the Ministry of Finance, the Department of Debt management in the Ministry of Budget, and the General Directorate for Customs and Indirect Taxation**
- **Implementation by Customs of a specific computer system with a code for each project**

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General conditions applicable to loan and guarantee agreements of the African Development Fund: page 28

Article VIII

TAXES

SECTION 8.01 taxes

- a) Le principal, les intérêts, la Commission d'engagement, la Commission d'Engagement Spécial et les autres charges relatifs au Prêt sont payés sans aucune déduction et sont exonérés de tout impôt prélevé par l'Etat Membre qui est l'Emprunteur ou le Garant, ou exigible sur son territoire.
- b) L'Accord de Prêt et l'Accord de Garantie, de même que tout autre accord auquel s'appliquent les présentes Conditions Générales, sont exonérés de tout impôt prélevé par l'Etat Membre qui est l'Emprunteur ou le Garant ou exigible sur son territoire sur la signature, la notification ou l'enregistrement desdits accords.
- c) Les immunités, exemptions et privilèges en matière d'imposition mentionnés dans la présente Section 8.01 et dans l'article 57 de l'Accord de la Banque sont applicables et bénéficient uniquement à la Banque. Par conséquent, ils ne peuvent servir de fondement à une revendication ou une demande d'immunités, d'exemptions et de privilèges similaires faites par un consultant, un entrepreneur ou un tiers engagé par l'Emprunteur ou le Garant dans le cadre du Projet.

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Conclusion

1. The total amount of foreign-funded projects corresponds to 92% of the State budget for the period of 2013 to 2017.
2. There are 30 international and governmental agencies financing development projects in Djibouti; these agencies intervene in 19 different sectors.
3. The potential for mobilizing revenues in Djibouti is undermined by significant tax expenditures, including those related to exemptions on foreign-funded projects. These tax expenditures generate a loss of revenues which is not fully offset.
4. Each year, the amount of these tax expenditures is equal to 10 billion FD on 80 billion FD of tax revenues, i.e. 13% to 15%.

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**Thank you for your kind
attention**

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