

TAXATION OF ODA-FUNDED PROJECTS

ECOSOC special meeting on international cooperation in tax matters

18 May 2018

Titia Stolte-Detring,
Federal Ministry of Finance Germany

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Reasons for exempting development projects:

1. Avoiding compliance costs in recipient countries
2. Political support for targeted projects
3. Budgetary restrictions in donor country
4. High costs for renegotiating bilateral treaties

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1. Avoiding compliance costs in recipient countries :

- Donors have to cope with a lot of different tax systems in partner countries (tax base, rate structure, other exemptions in domestic tax law of partner country, lack of transparency) -> high compliance costs
- In particular difficult with import duties, an important revenue source for many developing countries
- Tax exemptions for donors allow them to focus on their core business: development assistance
- Weaknesses in financial institutions, e.g. corruption, discrimination

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2. Political support for targeted projects (in contrast to general budget support) (1):

- Political support in donor countries for more targeted projects: higher visibility for the public, lower risk of misuse of funds and higher sustainability
- But: taxes paid in the recipient country with respect to a donor financed project have the character of untargeted general budget support -> undermines political goal to offer more targeted support

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2. Political support for targeted projects (in contrast to general budget support) (2):

- Weaknesses in institutions, tax systems and fiscal planning (e.g. corruption, discrimination) can obstruct the use of tax revenue in favor of the recipient country's development
- Risk that tax revenue generated from donor projects for purposes not in line with the "ordre public" of the donor country (violation of human rights, rule of law)

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3. Budgetary restrictions in donor country:

- Tax costs reduce the funds available for development projects
- When budget position for a respective project is not adjusted: the funds available for the project may not be sufficient to reach the goals intended with the project

4. High costs for renegotiating bilateral development cooperation treaties :

- In particular in donor countries, which have a lot of bilateral development cooperation treaties with partner countries, comprising tax exemptions: high costs for renegotiating the treaties

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