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DOCUMENTO DE TRABAJO

sobre el Informe Especial n.º 35/2016 (aprobación de la gestión 2016):
Utilización del apoyo presupuestario para mejorar la movilización de los
ingresos nacionales en el África subsahariana

Comisión de Control Presupuestario

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Introduction

Domestic revenue mobilisation (DRM) refers to the generation of government revenue from domestic resources, from tax or non-tax sources. The provision of a wide range of welfare services (education, public infrastructure, health care) that reinforce poverty reduction and sustainable development cannot rely solely on international aid since its size is insufficient. These services need to be covered by domestic revenue, which is the biggest source of financing available to the governments.

Developing countries - particularly low and lower middle income economies with tax-to-GDP from 10 to 20% compared to 25 to 40% in developed countries - face significant challenges in revenue mobilisation. The EU's political commitment to supporting their DRM, a priority for the international development community, was reflected in the development policy framework and the legal basis for the European Development Funds and the Development Cooperation Instrument.

A substantial amount of the EU funding is channeled through budget support (i.e. approximately 20% of EU disbursements in the development cooperation field), which is defined as the transfer of financial resources to the national treasury of a partner country, following compliance by the latter with agreed conditions for payment. Besides financial transfers, budget support has three other components: policy dialogue with the partner country, performance assessment based on disbursement conditions, and capacity development.

At the end of 2015, there were 261 ongoing budget support contracts in 88 countries. Overall, sub-Saharan Africa is the biggest beneficiary, with commitments amounting to 6 billion euros.

Audit scope and objectives

- The Court assessed whether the Commission effectively used budget support contracts to support DRM in low- and lower-middle-income countries in sub-Saharan Africa.
- The audit covered budget support contracts signed after 1 January 2013, i.e. after the entry into force of the new budget support approach. It involved an analytical review of 15 contracts amounting to 1.25 billion euros in nine countries in sub-Saharan Africa. Three of these countries were visited (Cap Verde, Rwanda and Sierra Leone), each of which had concluded a different type of contract with the Commission (respectively good governance and development, sector reform and state building).
- In particular, the Court focused on (i) whether the Commission adequately assessed partner countries' revenue policies and administration in coordination with other donors, (ii) whether it used budget support conditionality, policy dialogue and capacity development to support DRM effectively, and (iii) whether there are clear indications that EU budget support made a positive contribution to DRM in the partner countries.

Court's findings and observations

- The Commission's new approach had led to better assessment requirements of DRM in partner countries, but these were not yet comprehensively implemented in practice

- (a) With respect to the Commission's new approach, the Court stated that it had led to better assessment requirements of DRM in partner countries, but these were not yet comprehensively implemented in practice. The framework for DRM examination provided by the new guidelines was extensive in its scope, which was an improvement on the previous techniques. According to the current regulations, the Commission should include the efforts made by the concerned country to strengthen DRM (notably fiscal reforms and their expected impact) while evaluating its macroeconomic stability. Moreover, public financial management (PFM) appraisal ought to encompass tax administration.
- (b) The Commission's guidelines provide for an in-depth macroeconomic analysis of a country. However, the Court found that, in practice, the majority of the DRM assessments were limited to a presentation of fiscal policy, recent developments in revenue levels (tax-to-GDP ratio) and a comparison with peers, and they lacked essential information about a country's ability to mobilise domestic revenue. The tax effort was not estimated for any of the audited countries, neither were the total cost and potential effect of tax exemptions. The composition and the relevance of different types of taxes and other revenue was presented only in four countries (Mauritania, Mozambique, Rwanda and Senegal), and the ratio of direct to indirect taxes was only given for Cape Verde, the Central African Republic and Sierra Leone. In addition, the Commission did not report on the absence of key DRM data, which can be a signal of the partner countries' weak capacity in that area.
- (c) The assessment of the Public Financial Management (PFM) also did not address all the envisaged aspects. In most cases the Commission outlined the structure of administration and government efforts to strengthen revenue agencies, yet no reference was made to the staffing and material constraints. All the assessments mentioned existing or planned anti-corruption measures and most of them analysed transparency issues as well. Nevertheless, the verification of public access to information on tax legislation and tax incentives were carried out only in Mali and Mozambique. Another element often escaping the Commission's attention was the audited countries' involvement in international initiatives aimed at tackling the leakage of funds through tax evasion, money laundering and other financial crimes.
- (d) The Court observed that the risk management framework for budget support did not allow for a comprehensive assessment of the risk associated with DRM. Although the Commission's questionnaire contained a very relevant question, related directly to revenue mobilisation, the response evaluation procedure does not actually enable to draw conclusions about the risks concerning the tax assessment, collection and transfer to the treasury. Furthermore, the risks connected with non-tax revenue (e.g. royalties paid for access to natural resources and extraction dividends), as well as the extent and nature of tax exemptions, were not considered.
- (e) Disbursement conditions and the associated performance indicators are equally important components of aid in the form of budget support. When it comes to the disbursement of variable tranches, the fulfilment of specific conditions is frequently demanded. They are usually translated into measurable indicators and targets, thus ensuring a direct link between budget support payments and DRM reforms. The selected indicators should be justified and incentivise governments to implement

reforms.

- The effectiveness of budget support conditions, policy dialogue and capacity development was undermined by design weaknesses and challenging local circumstances
 - (a) The Court observed that the Commission used DRM-related specific conditions in only five of the 15 audited contracts. All of them were state-building contracts with a limited duration of 1 or 2 years, which focus on improving DRM in the short term and in the most fragile countries. This is contradictory to the declared objective of laying a stronger emphasis on DRM through good governance and development contracts in particular.
 - (b) When using variable tranche conditions, in three out of five contracts the Commission did not select those most relevant to the national context. In Sierra Leone, it focused on administrative reforms at the revenue authority, rather than promoting essential new legislation which would have had a broader impact on DRM. In three cases the specific conditions that were applied did not produce the expected incentive effect because they had already been achieved when the contract was signed (Central African Republic, Sierra Leone), or because they were unenforceable due to the existing legal obligations (Niger).
 - (c) The Court assessed positively the monitoring of the partner countries' compliance with the arranged conditions. Only the contract with the Central African Republic did not include adequate provisions. On the other hand, the Commission's annual budget support reports did not provide sufficiently detailed information on the contracts with DRM specific conditions. Consequently, no comprehensive data on the totality of funding for DRM through budget support and other forms of aid is available.
 - (d) Policy dialogue is another core element of budget support. As it often takes place in a challenging context, a dialogue strategy with clearly listed objectives is indispensable to track progress and address issues identified as essential. The Court pointed out that although the Commission had determined specific DRM problems to be tackled, it had not developed strategies for policy dialogue. In their absence, it was difficult to objectively assess whether this tool has effectively contributed to DRM reforms. The Court stated that dialogue was generally well coordinated with other development partners as joint planning and review meeting were organised. However, the policy dialogue often did not take place on a regular basis due to difficult country circumstances.
 - (e) With regard to the capacity development component, budget support was provided in the broader area of PFM, which may include direct or indirect support for DRM. Nine of the 15 contracts allocated a total of 60.4 million euros to capacity development. Nevertheless, a very small part of that was earmarked for the area of DRM - it was targeted only in one contract with support totalling 3 million euros.
- The Commission did not have appropriate tools to provide evidence that EU budget support contributed to improve DRM in partner countries
 - (a) Finally, the Court noted that the Commission did not have appropriate tools to provide evidence that EU budget support contributed to improve DRM in partner countries.

High-level impact indicators used for evaluation can be influenced by many external factors and thus cannot record outputs and outcomes that were specifically induced by budget support.

- (b) One standard indicator for assessing DRM progress is the revenue-to-GDP ratio. In several of the partner countries, it was highly variable from year to year because of seasonal circumstances that were not linked to budget support, such as record mining export in Mauritania, political and security crisis in the Central African Republic or windfall capital gains from the sale of gas concessions in Mozambique.
- (c) Another set of DRM-specific indicators used by the Commission to assess improvements in the tax system came from the Public Expenditure and Financial Accountability framework. They deliver information on important aspects of tax policy and administration. However, for the period after the endorsement of the new budget support guidelines in 2012, they were available only for two countries (Mauritania and Sierra Leone), and hardly any improvement could be observed in comparison with the levels registered a few years earlier.
- (d) To demonstrate whether budget support contracts have a direct impact on DRM, it would be necessary to develop appropriate data-collection tools and to assess specific areas of a tax system in detail, with a comparison over time and the attribution of progress achieved to individual components of budget support.

Court's recommendations

In the light of its findings and in order to improve the support for domestic revenue mobilisation in sub-Saharan Africa through budget support contracts, the Court recommended that:

1. DRM assessments and risk analysis should be strengthened. Before approving new budget support contracts and disbursements, the Commission should ensure that DRM assessments are comprehensive and consistently implemented. With immediate effect, it should also complete its risk assessment framework by including risks linked to non-tax revenue and tax exemptions, and by extending the sources of information concerning tax revenue;
2. The use of DRM-specific disbursement conditions should be strengthened. For future budget support contracts, the Commission should take greater account of DRM in the specific disbursement conditions linked to variable tranches by focusing more on DRM in the good governance and development contracts, and by ensuring that the applied conditions effectively promote DRM and provide partner countries with the incentives to advance in the implementation of their reform agenda;
3. From 2017 onwards, the Commission should provide more information in its budget support reports concerning the use of budget support contracts for DRM. In particular, the reports could include information about the number, type and value of contracts with DRM as specific objective as well as case studies illustrating the budget support contributions to DRM improvements in partner countries;
4. The Commission should devise dialogue strategies for future budget support contracts,

comprising a clear statement of the issues to be addressed (including DRM), the interlocutors, the expected results/outcomes and an indicative timetable. The Commission should subsequently assess how well the objectives of its dialogue strategies have been achieved;

5. For all existing and future budget support contracts with a capacity development component earmarked for DRM, the Commission should increase partner countries' awareness of the availability of this support and facilitate its use, in particular to address capacity development needs not yet covered by other donors;
6. In its future evaluations of budget support, the Commission should strive to provide a clear conclusion (based on more detailed data) on how budget support operations could have contributed to improve the mobilisation of domestic resources in the beneficiary countries. In particular, the contribution made through DRM specific conditions should be taken into account in the evaluations.

Summary of the Commission and EEAS replies

- The Commission's answers are generally vague and lack ambition and clarity. Moreover, the Commission considers that DRM has been duly reinforced in budget support formulation and implementation. Impacts are expected over a medium-term time frame of about 5 to 10 years.
- The assessments the Court refers to are useful concepts of domestic revenue mobilisation, some of them (e.g. cost and impact of tax exemptions, tax effort) are only available occasionally in research papers and are not systematically produced by any institution. Assessments done during the preparation of operations have to take into account the country context, namely for state building contracts, as well as the availability of data and information.
- With regard to the Court's recommendations, the Commission accepted them and stated they will be taken into consideration to enhance the efficiency of budget support for DRM while respecting partner countries' sovereignty in designing their revenue systems and fiscal policy.

Recomendaciones del ponente para su posible inclusión en el informe anual de aprobación de la gestión de la Comisión

[El Parlamento Europeo]

1. Acoge positivamente el informe especial que analiza el apoyo presupuestario para mejorar la movilización de los ingresos nacionales en el África subsahariana, respalda sus recomendaciones y manifiesta su satisfacción con la voluntad de la Comisión de ponerlas en práctica; lamenta la vaguedad y falta de ambición de las respuestas de la Comisión;
2. Destaca la importancia de la movilización de los ingresos nacionales (MIN) en los países menos desarrollados ya que reduce su dependencia de la ayuda al desarrollo, contribuye a mejorar la gobernanza pública y desempeña una función clave en la construcción del Estado;

3. Destaca que, según el Tribunal, la Comisión aún no ha usado de manera eficaz los contratos de apoyo presupuestario para apoyar la MIN en los países de renta baja y media baja del África subsahariana; constata, sin embargo, que, gracias al nuevo enfoque de la Comisión, existe un mayor potencial para que este tipo de ayuda sustente la MIN de manera eficaz;
4. Hace hincapié en que el refuerzo de los sistemas tributarios contribuye no solo a la recaudación de unos ingresos más previsibles, sino también a la rendición de cuentas por parte de los gobiernos mediante el establecimiento de una relación directa entre los contribuyentes y su gobierno; apoya la inclusión explícita de la mejora de la MIN en la lista de los desafíos clave del desarrollo abordados a través del apoyo presupuestario elaborada por la Comisión;
5. Lamenta que la Comisión no prestara suficiente atención a la MIN al diseñar sus operaciones de apoyo presupuestario; subraya que no se evaluaron los riesgos clave relacionados con las exenciones fiscales y con la recaudación y la transferencia de impuestos e ingresos no fiscales procedentes de los recursos naturales;
6. Subraya la importancia de movilizar ingresos en los países en desarrollo, al mismo tiempo que señala los desafíos relacionados con la evasión y la elusión fiscales y los flujos financieros ilícitos; alienta el refuerzo de la asistencia técnica y financiera a los países en desarrollo y los marcos regionales de administración tributaria, así como la adopción de principios para la negociación de convenios tributarios;
7. Destaca que la fiscalización puso de manifiesto la falta de instrumentos apropiados para evaluar el grado en el que el apoyo presupuestario había contribuido a mejoras globales en la MIN;
8. Considera fundamental promover de manera constante unos sistemas impositivos nacionales justos y transparentes, brindar un mayor apoyo a los procesos y organismos de supervisión en el ámbito de los recursos naturales y seguir respaldando las reformas de la gobernanza que promuevan una explotación sostenible de los recursos naturales y una gestión transparente; destaca que los acuerdos de libre comercio reducen los ingresos fiscales en los países de renta baja y de renta media baja, por lo que pueden resultar contraproducentes en esos países; solicita a la Comisión que las consecuencias fiscales de los acuerdos de libre comercio con países de renta baja y de renta media baja se tengan en cuenta en la evaluación de riesgos a la hora de negociar acuerdos de libre comercio;
9. Solicita a la Comisión que se ciña a sus directrices a la hora de evaluar los aspectos de la MIN desde el punto de vista macroeconómico y de la gestión de las finanzas públicas (GFP), a fin de tener una imagen más completa de los asuntos más problemáticos, como el alcance de los incentivos fiscales, los precios de transferencia y la evasión fiscal;
10. Destaca que, para mejorar el diseño de las operaciones de apoyo presupuestario, el procedimiento de identificación de los riesgos para la consecución de los objetivos fijados debería ser más completo y hacer uso del Instrumento de evaluación de diagnóstico de la administración tributaria (TADAT), siempre que esté disponible;
11. Hace hincapié en la necesidad de emplear las condiciones específicas de la MIN más a menudo, ya que establecen un vínculo claro entre los pagos del apoyo presupuestario y el

progreso del país socio en las reformas concernientes a la MIN; pide a la Comisión que seleccione las condiciones que resulten pertinentes y tengan la mayor repercusión posible en la MIN;

12. Reconoce que la Comisión tiene que operar en un contexto político e institucional complicado; insiste en la importancia del diálogo político estructurado, en el que participen interlocutores del gobierno nacional y otros importantes donantes, con objeto de determinar los ámbitos de interés fundamentales y diseñar una estrategia de ayuda a medida;
13. Alienta a la Comisión a que amplíe el componente de desarrollo de capacidades del apoyo presupuestario, ya que sienta una base sólida para las transformaciones socioeconómicas a largo plazo y permite afrontar los grandes obstáculos a la recaudación eficiente de ingresos públicos;
14. Destaca que, a fin de confirmar el impacto directo de las medidas de apoyo presupuestario en la movilización de ingresos nacionales, se necesita estudiar más de cerca ámbitos concretos del sistema tributario, de manera que los avances logrados puedan atribuirse a los diferentes componentes de la asistencia prestada.