

NDF OPERATIONAL POLICY ON TAXES - Grant-financed Projects **(Adopted by NDF's Board of Directors on 9 March 2010)**

This policy concerns use of NDF grant funds for taxes payable in the Recipient country. "Taxes" includes imposts, levies, fees and duties of any nature, whether in effect at the date of the Grant Agreement or imposed thereafter. The most important of such taxes are value added taxes (or similar) on goods, works and services, customs duties on imported goods and income taxes (or similar) imposed on firms and individual staff members of the firms.

The policy is intended to supplement the policies on financing of taxes imbedded in the general conditions and policies of the major multilateral development institutions (see for example Operational Policy OP 6.00 and Bank Procedure BP 6.00 of the World Bank of April 2004, the Standard Conditions for Grants made by the World Bank Out of Various Funds, dated July 1, 2008, Section 3.07; General Conditions Applicable to the African Development Fund Loan Agreements and Guarantee Agreements, dated 31/12/2008, Section 5.10; Asian Development Bank Operations Manual H3/OP, issued on 22 October 2008, Section 8 and the IDB document No. GN-2331-5 'Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans' of November 2004).

NDF TAX POLICY:

NDF grants may be used to finance the reasonable costs of taxes and duties associated with project expenditures.

INTERPRETATION OF THE POLICY:

As far as possible, the eligibility of taxes and duties for NDF grant financing will be defined in Annex 1 of the Grant Agreement, based on an analysis made in the project preparation and appraisal stage.

If,

- the recipient country has a viable tax and duty exemptions system and mechanisms applicable in the project setup or;
- if counterpart funds that can be used for payment of taxes and duties are available, or can be made available without major delay,

the normal eligibility rule to be defined in Annex 1 is that NDF grant will not be used for payment of taxes and duties.

Financing of taxes shall be reasonably shared among the financiers of the project, and financing of taxes by NDF shall be related to the elements of the project that comprise climate mitigation and/or adaptation. Financing of taxes by the lead agency and other multilateral financiers shall be reflected in the project presentations made to the NDF Board.

If there are no viable tax and duty exemption mechanisms or there are no counterpart funds available, taxes and duties associated with project expenditures may be paid from NDF grant funds. However, taxes and duties are not eligible for NDF grant financing if they are, in the opinion of NDF,

- material;
- excessive;
- discriminatory;
- targeting specifically projects financed by NDF or international financing institutions or;
- otherwise unreasonable.

In determining whether NDF should not finance any taxes and duties, NDF shall consider whether, and to what extent, taxes and duties

- (i) constitute an excessively high share of project costs, or;
- (ii) are specifically directed at projects or activities or expenditures financed by NDF or development banks/funds and;
- (iii) are material.

If the country's tax regime changes significantly during project implementation, NDF shall take necessary actions to modify the percentage of NDF financing for the concerned expenditure categories. This is covered by a standard clause in the main grant agreement.