

## External actions: financing instrument for development cooperation

2009/0060A(COD) - 21/04/2009 - Legislative proposal

**PURPOSE:** to amend Regulation (EC) No 1905/2006 establishing an instrument for development cooperation (DCI) in order to provide, on a case by case basis, eligibility of taxes for Community financing.

**PROPOSED ACT:** Regulation of the European Parliament and of the Council.

**CONTENT:** the various Community financial instruments for external cooperation contain inconsistencies regarding the eligibility for Community financing of costs related to taxes, duties and other charges.

The Development Cooperation Instrument ([DCI](#)) and the European Instrument for Democracy and Human Rights ([EIDHR](#)) are the only ones not to provide for an exception to the principle of the non-eligibility of such costs for funding. The other instruments lay down that Community support may not be used to finance these costs in principle. They therefore allow for flexibility on a case-by-case basis and the authorising officer responsible may, where appropriate, decide to accept their being financed in the interests of proper implementation of programmes and projects.

Such flexibility is essential for certain recurring situations where deadlock occurs because exemption mechanisms are absent or impractical (owing, for example, to the extreme complexity of procedures in the beneficiary country). In these situations, the rigid formulation of the DCI and EIDHR instruments may make the action financed by external aid extremely difficult.

Note also that with the current wording the prohibition on financing for the payment of taxes concerns only those paid "in beneficiary countries", which adds difficulty of interpretation to the problem of eligibility (especially in the case of regional projects). Another example is the levying of local taxes (equivalent to VAT) which cannot be recovered because of a lack of machinery for relief and then have to be borne by the contractor because of the strict prohibition on covering taxes.

In view of the above and of the evolving nature of tax rules in the beneficiary countries, it is essential to preserve sufficient flexibility to enable authorising officers to determine, on a case-by-case basis, whether there is need to accept the eligibility of taxes for Community financing under the EIDHR and DCI, as they may do for other instruments of EC external assistance, where such taxes are lawful.

Therefore it is proposed to align the relevant provisions of both these instruments as a consequence.

It should be noted that for reasons of a legal nature, it is provided that the European Parliament should give a separate opinion on this proposal amending the DCI and on the parallel proposal [amending the EIDHR](#).