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**AMENDING LETTER No 1  
TO THE DRAFT GENERAL BUDGET 2012**

**[STATEMENT OF EXPENDITURE BY SECTION  
Section III - Commission**

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Having regard to:

- the Treaty on the Functioning of the European Union, and in particular Article 314 thereof, in conjunction with the Treaty establishing the European Atomic Energy Community, and in particular Article 106a thereof,
- the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities<sup>1</sup>, and in particular Article 37 thereof,
- the draft general budget of the European Union for the financial year 2012 presented by the Commission on 26 May 2011<sup>2</sup>
- Joint Communication "A new response to a changing neighbourhood<sup>3</sup> and its Legislative Financial Statement
- Joint Communication on Partnership for Democracy and Shared Prosperity<sup>4</sup>.

the European Commission hereby presents to the budgetary authority the amending letter No 1 to the Draft General Budget for 2012 for the reasons set out in the explanatory memorandum.

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<sup>1</sup> OJ L 248, 16.9.2002, p. 1.

<sup>2</sup> COM(2011)300

<sup>3</sup> COM(2011)303

<sup>4</sup> COM(2011) 200

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### STATEMENT OF EXPENDITURE BY SECTION

The changes to the statement of revenue and expenditure by section are available on EUR-Lex (<http://eur-lex.europa.eu/budget/www/index-en.htm>). An English version of the changes to these statements by section is attached for information as a budgetary annex.

## 1. INTRODUCTION

This Amending Letter No 1 (AL 1) to the Draft General Budget for 2012 (DB 2012) covers the following:

- the increase of EUR 400 million in commitment appropriations to support additional measures in the EU Neighbourhood region as a follow-up of the recently adopted Joint Communication "*A new response to a changing Neighbourhood*"<sup>5</sup>: EUR 395,5 million for the European Neighbourhood and Partnership Instrument (ENPI) and EUR 4,5 million for the European Instrument for Democracy and Human Rights (EIDHR);
- the related redeployment of EUR 104,1 million in payment appropriations from other programs within Heading 4: EUR 102,8 million to the ENPI and EUR 1,3 million to the EIDHR. There is no impact on the overall level of payment appropriations.

The reinforcement of EUR 400 million in commitment appropriations will be covered by the margin of Heading 4 (EUR 246,7 million), and by the mobilisation of the Flexibility Instrument (EUR 153,3 million).

## 2. REINFORCING THE EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP INSTRUMENT

### 2.1. Background and Overview

The strategic review of the European Neighbourhood Policy (ENP) that was initiated last year identified areas where the policy can be considerably strengthened. The revolutions and upheavals in the Southern Mediterranean and the strong aspirations that the people of these countries have expressed for political and economic change make the EU's support even more crucial than in the past, and point to areas where EU and partner countries can and should do better. Equally, the EU remains committed to durably supporting the democratisation and reform processes in the entire neighbourhood, south and east.

The Joint Communication on the "New response to a changing neighbourhood" sets out the proposals emerging from the ENP strategic review and, in that context gives substance to the approaches towards Eastern Europe and the Southern Caucasus through the continued implementation of the Eastern Partnership and towards the Southern Mediterranean, in the context of the new "*Partnership for Democracy and shared Prosperity*"<sup>6</sup>. With the offer of a "Partnership for Democracy and shared Prosperity", in particular, the EU seeks to support the democratic transformation initiated in Egypt and Tunisia, and that may extend to other countries of the southern Mediterranean.

The Joint Communication proposes the implementation of the new approach of the neighbourhood policy and identifies needs for **additional resources for the region of up to EUR 1 242 million until 2013** stemming from various sources).

It is proposed to reinforce with **EUR 751 million** the financial envelope of the ENPI<sup>7</sup> **over the period 2011 to 2013** and with **EUR 4,5 million in 2012** the **European Instrument for Democracy and Human Rights (EIDHR)**. Some EUR 355,5 million are to be redeployed from other instruments, including the corresponding administrative support expenditure.

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<sup>5</sup> COM (2011) 303

<sup>6</sup> COM (2011) 200

<sup>7</sup> These appropriations are added to the EUR 5 700 million provided under the current Financial Programming for the European Neighbourhood and Partnership Instrument for 2011-2013.

The table below specifies the programs to be reinforced, the complementary additional sources for the region as well as the breakdown of the sources of finance over the period 2011-2013. The impact on line-by-line level is reported in the budgetary annex.

*(Commitment appropriations in EUR million)*

<b>Overview: Financing from the EU Budget for the ENP Review - 2011-2013</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Total</b>
<b>1. Reinforcements, of which:</b>	<b>85,460</b>	<b>400,000</b>	<b>270,000</b>	<b>755,460</b>
— ENPI	85,460	395,500	270,000	750,960
— EIDHR		4,500		4,500
<b>2. Deployment of other external aid and crisis intervention instruments targeted at ENP region, of which:</b>	<b>22,700</b>	<b>60,000</b>	<b>160,000</b>	<b>247,200</b>
— EIDHR & DCI/Non-state Actors	12,700			12,700
— Macro-Financial Assistance		50,000	50,000	100,000
— Instrument for Stability	10,000	10,000	20,000	40,000
— Provisioning of Guarantee fund for EIB loans			90,000	90,000
<b>SUBTOTAL (1+ 2)</b>	<b>108,160</b>	<b>460,000</b>	<b>430,000</b>	<b>998,160</b>
<b>3. Re-use of EIB Reflows</b>	<b>174,000</b>	<b>35,000</b>	<b>35,000</b>	<b>244,000</b>
<b>TOTAL ADDITIONAL RESOURCES FOR THE REGION (1 + 2 + 3)</b>	<b>282,160</b>	<b>495,000</b>	<b>465,000</b>	<b>1 242,160</b>

<b>Sources of financing for reinforcements, of which:</b>	<b>85,460</b>	<b>400,000</b>	<b>270,000</b>	<b>755,460</b>
— <b>Heading 4 margin</b>		<b>246,656</b>		<b>246,656</b>
— <b>Flexibility Instrument</b>		<b>153,344</b>		<b>153,344</b>
— <b>Redeployment, of which:</b>	<b>85,460</b>		<b>270,000</b>	<b>355,460</b>
— DCI	51,000		100,000	151,000
— Contribution to EBRD	34,460			34,460
— IPA			60,000	60,000
— IfS			70,000	70,000
— Others, notably CFSP			40,000	40,000

<b>Complementary funding from Emergency Aid Reserve, of which:</b>	<b>65,000</b>			<b>65,000</b>
— Humanitarian Assistance Instrument	60,000			60,000
— Civil Protection Instrument in Third Countries	5,000			5,000
<b>GRAND TOTAL</b>	<b>347,160</b>	<b>495,000</b>	<b>465,000</b>	<b>1 307,160</b>

The present Amending Letter relates to the 2012 tranche of the reinforcement implementing the new approach for the ENP and amends the relevant budget lines in Draft Budget 2012 accordingly, by adding **EUR 400 million** in commitment appropriations to ENPI and EIDHR. Given the timelines and uncertainties related to the conditions for implementation, the Commission proposes to reallocate EUR 120,1 million from payment appropriations already included in the 2012 Draft Budget (see budgetary annex). In case of need, and depending on the absorption capacity in the region, the Commission may request additional payment appropriations in the course of the year through transfers and/or an amending budget.

The Commission is submitting separately to the Budgetary Authority transfer proposals to re-deploy appropriations in the 2011 Budget to the ENPI.

The ENPI legal framework is well placed to sustain the bulk of the new cooperation measures that have been identified in the review. The proposed increase is in accordance with point 37 of the Inter

Institutional Agreement on budgetary discipline and sound financial management<sup>8</sup>, as it represents a response to “*new, objective, long-term circumstances ... for which explicit and precise reasons are given, with account being taken of the results obtained from implementing the programme*”.

## **2.2. Destination of additional funding**

Financial support will be provided to further reinforce the partnership with people across the region, support sustainable and inclusive growth, cover the additional needs stemming from the democratic transformation of partner countries, advance the achievement of Millennium Development Goals and fund the new initiatives stemming from this review, notably in the areas of partnership with societies, rural and regional development.

The new activities translating these objectives into concrete measures on the ground can be grouped into three main components:

### **Component 1 — Democratic transformation and institution-building**

Support democratic transformation and institution-building through **Comprehensive Institution Building programme for democratic transformation** and other relevant actions addressing those institutions which are key to democratic societies and assisting in the democratic reform of the security sector. Expected results include more respect for human rights and fundamental freedoms, better democratic governance, a more independent and efficient judiciary, a lower level of corruption, better democratic oversight on security sector, enhanced mobility linked to better border and migration management and legislation being more in line with the EU *acquis*;

**Component 2 — Building a stronger partnership with people** by expanding contacts between students, researchers and young people, for example through increased student and academic staff mobility within university partnerships (Erasmus Mundus), structured cooperation for university modernisation (Tempus), Co-operation among schools initiated by opening the EU eTwinning programme or increased contacts among young people.

### **Component 3 — Sustainable and inclusive growth and economic development**

Promote sustainable and inclusive growth by supporting small and medium-sized enterprises (SMEs) and addressing economic and social disparities within a partner country through “pilot programmes” modelled on the EU Cohesion and Rural development policies.

Besides the ENPI, EU budget assistance for the region is also channelled through the **EIDHR**, which allows direct financial support for civil society actors such as human rights defenders or non governmental organisations (NGOs). It is proposed to add a **supplement of EUR 4,5 million** to chapter 19 04 (EIDHR) in the 2012 Draft Budget to support civil society in the democratic transition phase.

## **2.3. Beneficiaries**

Through the renewed European Neighbourhood Policy the EU seeks to support progress towards deep democracy and in particular the democratic transformation initiated in Egypt and Tunisia, and that may extend to other countries. To be sustainable this needs to be accompanied by reform of democratic institutions and economic growth. The population of neighbouring countries also needs to see that the EU is ready to help in this challenging period of transformation.

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<sup>8</sup> 2006/C139/01

While all partner countries will benefit from activities aimed at strengthening the “partnership with societies” (component 2), funding under the other two components will be allocated to partner countries on the basis of a "more for more" approach based on mutual accountability.

Thus, increased EU support will depend on progress in building and consolidating democracy and respect for the rule of law. The more and the faster a country progresses in its internal reforms, the more support it will receive from the EU, including assistance from the EU budget. These preferential commitments will be tailored to the needs of each country and to the regional context. They will recognise that meaningful reform comes with significant upfront costs. For countries where reform has not taken place, the EU will reconsider or even reduce funding.

The additional appropriations are entered:

- under chapter 19 08 in the budget items for financial cooperation with ENP Mediterranean (EUR 308,75 million on item 19 08 01 01) and ENP East (EUR 75 million on item 19 08 01 03) reflecting the greater needs related to democratic transformation in the Southern Mediterranean. However, in so far as the newly established principles of conditionality - differentiation and "more-for-more" - so require, the breakdown of funds can be adjusted through transfers in the course of budget execution. The reinforcement for ENPI also includes expenditure on administrative management (item 19 01 04 02) for an amount of EUR 11,75 million;
- under the budget item EIDHR (item 19 04 01) to cover specific initiatives dedicated to support the democratic transformation in the Southern Neighbourhood (EUR 4,5 million).

#### **2.4. Sources of additional funding**

The source of additional funding for the region comes from redeployment and reprogramming from and within existing external relations instruments, combined with the proposed use of the unallocated margin under the expenditure ceiling of Heading 4 of the multi-annual financial framework and the mobilisation of the Flexibility Instrument in 2012.

##### *2.4.1. 2011 Budget*

For 2011, the additional EUR 85,5 million will be made available through transfer of appropriations from the Development Co-operation Instrument (EUR 51 million) and from a reduction of the EU contribution to European Bank for Reconstruction and Development (EBRD) (EUR 34,5 million).

##### *2.4.2. 2012 Draft Budget*

For 2012 the additional EUR 400 million requested in the present Amending Letter, will be covered by:

- the unallocated margin under the expenditure ceiling of Heading 4 (EUR 246,7 million). Part of the current margin in the Draft Budget 2012 was created by scaling down amounts originally programmed for 2012 for the Development Cooperation Instrument (EUR 89 million), the Instrument for Pre-accession Assistance (EUR 60 million) and the Instrument for Stability (EUR 60 million). The necessary payment appropriations will also be re-allocated from these programs.
- the Flexibility Instrument for an amount of EUR 153,3 million.

As explained in the political presentation in the Statement of estimates for 2012, initially planned increases of some actions, for example under the DCI, IPA and Instrument for

Stability (IfS) were scaled down to a certain extent on the basis of performance indicators such as delayed execution, deficient absorption capacity and lack of clearly defined needs.

In particular, the screening of country programmes under the DCI instrument has resulted in the identification of a number of possible reductions of multi-annual National Indicative Programmes, notably in Latin American and Asian countries.

The momentous dimension of unfolding events in the neighbourhood and the need and interest of the EU to respond adequately to these events fully justify the use of the entire margin of EUR 246,7 million for that end. The remaining gap in the funding will be covered by recourse to the Flexibility Instrument.

#### 2.4.3. 2013 Financial programming

For 2013, the additional EUR 270 million are foreseen to come through a re-allocation of resources from the Development Cooperation Instrument (EUR 100 million), the Instrument for Pre-Accession Assistance (EUR 60 million), the Instrument for Stability (EUR 70 million) and redeployment from other instruments notably the Common Foreign and Security Policy (EUR 40 million)<sup>9</sup>.

The proposed re-allocations do not imply any reduction of Official Development Aid. It will be ensured that the re-allocated funds, despite being committed and disbursed under a different legal base, will maintain a strong focus on the primary and overarching objectives of the DCI regulation 1905/2006 (art. 2), namely *"the eradication of poverty in partner countries and regions in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), as well as the promotion of democracy, good governance and respect for human rights and for the rule of law"*.

## 2.5 Complementary Funding other than ENPI and EIDHR

As mentioned above, implementing the new approach of the neighbourhood policy based on mutual accountability and a shared commitment to the universal values of human rights, democracy and the rule of law, will require additional resources of up to EUR 1 242 million until 2013. Besides the reinforcement of the ENPI and EIDHR envelopes as described above, new resources for the region will include:

- deploying financing from thematic instruments within the amounts already budgeted and programmed for EIDHR (EUR 8,9 million for the years 2011-2012 are already foreseen), and from other programmes such as the Non State Actors (NSA) Thematic Programme within the Development Co-operation Instrument (EUR 3,8 millions);
- deploying the Instrument for Stability (EUR 40 million)<sup>10</sup>;
- provisioning the Loan Guarantee Fund to provide the necessary guarantee (EUR 90 million) to leverage an extra billion of EIB lending in the Southern Neighbourhood<sup>11</sup>;
- deploying the instrument of Macro-financial Assistance (EUR 100 million)<sup>12</sup>,

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<sup>9</sup> To be initiated on the basis of the proposal of the High Representative and in accordance with the specific rules applying to the CFSP budget.

<sup>10</sup> The exact amount to be mobilised under the IfS will depend on identifying suitable projects. Should these projects amount to less than EUR 40 million the balance will be transferred to ENPI

<sup>11</sup> If the Council and Parliament agree to also increase the Eastern Neighbourhood ceiling in the context of the mid-term review of the EIB external mandate, the necessary amount will be set aside for provisioning the Guarantee Fund. It should be noted that, in line with Guarantee Fund Regulation (Council Regulation (EC, Euratom) No 480/2009), the necessary provisioning will take place over several years starting from 2013.



- allowing the European Investment Bank (EIB) to reuse *reflows* from old operations for capital investment in SMEs (EUR 244 million). This requires the Council to adopt the proposed amendment of Art.23 of the ENPI regulation.

In parallel, the existing National Indicative Programmes are being refocused on the key objectives of the new partnership and EUR 150 million are being reallocated from within the ENPI envelope to support the new ENP Civil Society Facility and other actions to promote a stronger partnership with societies.

In the realm of crisis intervention, further EU Budget funds above and beyond programmed amounts have also been mobilized in response to the refugee crisis in Libya.

In 2011, the Emergency Aid Reserve has been used to replenish the Humanitarian Aid budget for this purpose by EUR 30 million early in the year;; another tranche of EUR 30 million is being proposed through a transfer from the reserve.

### 3. CONCLUSION

The Amending Letter No 1 (AL 1) to the Draft General Budget for 2012 (DB 2012) covers the following:

- the increase of EUR 400 million in commitment appropriations to support additional measures in the EU Neighbourhood region as a follow-up of the recently adopted Joint Communication "*A new response to a changing Neighbourhood*"<sup>13</sup>: EUR 395,5 million for the European Neighbourhood and Partnership Instrument (ENPI) and EUR 4,5 million for the European Instrument for Democracy and Human Rights (EIDHR);
- the related redeployment of EUR 104,1 million in payment appropriations from other programs within Heading 4: EUR 102,8 million to the ENPI and EUR 1,3 million to the EIDHR. There is no impact on the overall level of payment appropriations requested in the 2012 Draft Budget.

The Commission proposes to cover the reinforcement of EUR 400 million in commitment appropriations through the unallocated margin available under the expenditure ceiling of Heading 4 (EUR 246,7 million), and by the mobilisation of the Flexibility Instrument (EUR 153,3 million).

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<sup>12</sup> The exact amount to be mobilised under the instrument will depend on the financing needs of the countries eligible to macro-financial assistance (MFA), identified in the context of economic stabilisation and reform programmes implemented with the support of the IMF. Should the amount of MFA programmes in favour of the region be less than EUR 100 million the balance could be transferred to ENPI.

<sup>13</sup> COM (2011) 303

#### 4. SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2012 Financial Framework		Draft Budget 2012		Amending Letter No 1/2012		DB 2012 + AL No 1/2012	
	CA	PA	CA	PA	CA	PA	CA	PA
<b>1. SUSTAINABLE GROWTH</b>								
1a. Competitiveness for growth and employment	14 853 000 000		15 223 600 752	12 566 134 008			15 223 600 752	12 566 134 008
1b. Cohesion for growth and employment	52 761 000 000		52 738 876 141	45 134 800 000			52 738 876 141	45 134 800 000
<b>Total</b>	<b>67 614 000 000</b>		<b>67 962 476 893</b>	<b>57 700 934 008</b>			<b>67 962 476 893</b>	<b>57 700 934 008</b>
<i>Margin<sup>1</sup></i>			<i>151 523 107</i>				<i>151 523 107</i>	
<b>2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES</b>								
Of which market related expenditure and direct payments	48 093 000 000		44 179 737 305	44 102 837 025			44 179 737 305	44 102 837 025
<b>Total</b>	<b>60 810 000 000</b>		<b>60 158 443 305</b>	<b>57 948 376 981</b>			<b>60 158 443 305</b>	<b>57 948 376 981</b>
<i>Margin<sup>2</sup></i>			<i>651 556 695</i>				<i>651 556 695</i>	
<b>3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE</b>								
3a. Freedom, Security and Justice	1 406 000 000		1 340 381 000	868 333 500			1 340 381 000	868 333 500
3b. Citizenship <sup>3</sup>	699 000 000		683 471 000	645 659 400			683 471 000	645 659 400
<b>Total</b>	<b>2 105 000 000</b>		<b>2 023 852 000</b>	<b>1 513 992 900</b>			<b>2 023 852 000</b>	<b>1 513 992 900</b>
<i>Margin</i>			<i>81 148 000</i>				<i>81 148 000</i>	
<b>4. EU AS A GLOBAL PLAYER<sup>4</sup></b>	<b>8 997 000 000</b>		<b>9 009 280 576</b>	<b>7 293 724 333</b>	<b>400 000 000</b>		<b>9 409 280 576</b>	<b>7 293 724 333</b>
<i>Margin</i>			<i>246 656 424</i>				<i>-153 343 576</i>	
<b>5. ADMINISTRATION<sup>5</sup></b>	<b>8 670 000 000</b>		<b>8 281 389 366</b>	<b>8 281 684 366</b>			<b>8 281 389 366</b>	<b>8 281 684 366</b>
<i>Margin</i>			<i>472 610 634</i>				<i>470 610 634</i>	
<b>TOTAL</b>	<b>148 196 000 000</b>	<b>141 360 000 000</b>	<b>147 435 442 140</b>	<b>132 738 712 588</b>	<b>400 000 000</b>		<b>147 835 442 140</b>	<b>132 738 712 588</b>
<i>Margin</i>			<i>1 603 494 860</i>	<i>8 815 287 412</i>			<i>1 201 494 860</i>	<i>8 815 287 412</i>

1 The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a.

2 After the transfer from modulation to Rural Development and from cotton and wine for restructuring in the respective regions (EUR 3 150,4 million).

3 The European Union Solidarity Fund (EUSF) amount is entered over and above the relevant headings as foreseen by the IIA of 17 May 2006 (OJ C 139 of 14.6.2006).

4 The 2012 margin for Heading 4 does not take into account the appropriations related to the Emergency Aid Reserve (EUR 258,9 million). EUR 153,3 million above the ceiling is financed by the mobilisation of the Flexibility instrument.

5 For calculating the margin under the ceiling for Heading 5, account is taken of the footnote (1) of the financial framework 2007-2013 for an amount of EUR 84 million for the staff contributions to the pensions scheme.