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Assessment of the situation within Heading 4 of the Financial Framework "The EU as a global player"

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1. INTRODUCTION

The agreement on the 2009 budget included the funding of EUR 1 billion for the 'Food Facility' over the period 2008-2010 to provide a rapid response to soaring food prices. The Food Facility is aimed at enhancing agricultural production and reducing the negative impact on vulnerable parts of the populations in developing countries worst affected. Given the numerous and competing demands for appropriations available under the ceiling of Heading 4 of the Financial Framework "The EU as a global player", all the existing mechanisms to tackle crises and unforeseen events have been activated, including the Emergency Aid Reserve (EAR), the Instrument of Stability (IfS), and the Flexibility Instrument. In addition, the Inter-institutional Agreement (IIA) on the budget discipline and sound financial management of May 2006 was amended to allow for a one-off increase of the EAR in 2008 to cover the outstanding financing gap.

As part of the agreement on the 2009 Budget, the Commission made the following declaration at the Conciliation meeting of November 21, 2008:

Evaluation of Heading 4

"Considering the absence of any margin under the expenditure ceiling of Heading 4 in 2009, the Commission acknowledges that the capacity to respond to unforeseen crises is quite restrained and therefore commits to present to the budgetary authority an assessment of the situation within Heading 4 accompanied, if necessary, by relevant proposals, in the course of 2009, taking into account the political evolution as well as budget execution."

Accordingly, this report assesses the situation of Heading 4, building on evidence from the first three years of the multiannual financial framework, looking at budget execution, and providing an overview of the situation for the years ahead.

2. THE 2007-2013 FINANCIAL FRAMEWORK AND THE ANNUAL BUDGET PROCEDURE

The reform of the financial instruments for external actions in 2007 streamlined more than 30 different ad hoc legal acts into four geographic and four thematic programmes, plus a series of specific programmes. As part of that rationalisation, the former Heading 7 "Pre-accession strategy" was merged with Heading 4 "The EU as a global player".

The agreement on the IIA in May 2006 paved the way for the adoption of the legislative instruments for the period 2007-2013, to take effect as from January 2007. These instruments underpin the Union's external policies, including priorities such as pre-accession assistance (IPA), neighbourhood policy (ENPI), development cooperation (DCI) and cooperation with industrialised countries (ICI). These instruments are complemented by instruments designed to address specific needs, such as human rights and democracy (EIDHR) or the Nuclear Safety and Cooperation Instrument (NSCI), and in particular to provide a response to crisis situations: the Humanitarian and Food Aid Regulation (HUMA)¹, the Common Foreign and Security Policy (CFSP), the Instrument for Stability (IfS), Macro-Financial Assistance (MFA), and the external dimension of the Civil Protection Financing Instrument (CPFI).

¹ The Humanitarian Aid legal base dates from 1996 and has not been amended in 2006.

2.1. Comparison between 2006 and 2013

Table 1 provides a comparison by main spending programmes between the expenditure levels of the 2006 budget, the last year of the previous financial framework, with the corresponding 2013 levels as resulting from the latest financial programming. For the sake of comparison over this period, the amounts granted to Bulgaria and Romania in 2006 have been excluded, so to cover the same geographical basing; moreover, the 2013 figures take into account the latest updating in the financial programming. However, the interpretation of the increase of appropriations under the Instrument for Pre-accession (IPA) requires some qualifications. In 2006, most countries of the Western Balkans were not yet receiving pre-accession funds; the CARDS programme was designed to support reconciliation and reconstruction in the region following the earlier conflicts. IPA needs to address these issues but also needs to provide more focussed assistance to help support the Western Balkans on their path towards the EU. The increase in assistance allocated to IPA takes this into account..

Expenditure under Heading 4 (excluding the EAR) increases by 43 % between 2006 and 2013. The three large geographic programmes – DCI, ENPI and IPA – increase, respectively, by 17 %, 64 % and 80 %. The relatively largest increases concern the IfS (by more than seven times), a crisis instrument, and the CFSP (by almost four times).

Table 1 - Main spending programmes in Heading 4 – comparison between 2006 and 2013

Commitment appropriations, in million EUR ; at current prices)

Instruments in 2007-2013 nomenclature	Budget 2006	Financial Programming* 2013	Change 2013 /2006
Development Cooperation Instrument (DCI)	2.323,2	2.723,3	17 %
European Neighbourhood and Partnership Instrument (ENPI)	1.277,3	2.089,1	64 %
Instrument for Pre-accession (IPA) **	1.127,0	2.023,9	80 %
Humanitarian & Food Aid	702,6	875,3	25 %
Loan Guarantee Fund for Community loans (GF)	229,0	200,0	-13 %
Instrument for Democracy and Human Rights (EIDHR)	129,8	175,7	35 %
Common Foreign and Security Policy (CFSP)	102,6	406,3	296 %
Instrument for Nuclear Safety Cooperation (INSC)	71,5	78,9	10 %
Macro-Financial assistance (MFA)	71,1	137,4	93 %
Instrument for Stability (IfS)	59,8	441,8	639 %
Industrialised Countries Instrument (ICI)	16,3	23,7	45 %
Non ODA activities in DCI countries (ICI) +	0,0	48,5	-
Civil Protection Financial Instrument (CPFI)	0,0	11,0	-
Other expenditure	481,4	206,5	-57 %
Sub-total	6.591,6	9.441,4	43 %
Emergency Aid Reserve (EAR)	229,0	264,1	15 %
Grand TOTAL	6.820,6	9.705,5	42 %
Ceiling **	7.593,0	9.595,0	26 %

* See Working Document V "Financial Programming 2010-2013" accompanying the 2010 PDB, SEC (2009) 610 - May 2009

** For the sake of comparison over 2006/2013, the amounts granted to Bulgaria and Romania in 2006 have been excluded

2.2. Development of Heading 4 Budget during the budgetary procedures

A growing margin² had been programmed under the budgetary ceiling in the financial framework for the period 2007-2013 in order to provide a degree of flexibility for satisfying needs that could arise during the budgetary procedures and that are not known at the moment of the planning of financial framework.

During the budgetary procedures, however, the level of margin has changed, mostly due to the additional funds provided from the budget line for provisioning of the Loan Guarantee Fund (GF).

For 2007 the planned initial level of the margin had been EUR 110 million. This margin was fully used in order to adapt the envelopes for different programmes in Heading 4.³ The most notable change, compared to PDB 2007, was the increase for the DCI (EUR 160 million).

The margin as proposed in the PDB 2008 and 2009 has been substantially higher than the originally programmed margin. On the basis of the updated needs assessment and due to savings resulting from the new mechanism for provisioning the Loan Guarantee Fund, the Commission was able to present a PDB with relatively larger margins in Heading 4.

Due to the unclear situation in conflict areas at the moment of the PDB presentations for 2008 and 2009, the Commission was unable to assess the needs for the forthcoming year based on the information known at the time. At a later stage in the budgetary procedure the Commission adjusted its proposal with an amending letter to the PDB requesting an increase in the allocation for certain budget lines corresponding to the updated needs assessment. These needs related mainly to Kosovo and to Palestine.

Due to those additional requirements and amendments by the Budget Authority, the margin of Heading 4 was completely consumed, and in 2008 and 2009 additional funds were mobilised from the Flexibility Instrument.

As indicated in table 2 below, expenditure in the financial programming (including the Emergency Aid Reserve) has been always kept under the ceiling for Heading 4 defined in the Financial Framework. When unexpected needs appeared, the Commission has made proposals within budgetary procedure to address them by redeploying funds within and between programmes, by allocating the remaining margin of Heading 4, or by proposing a mobilisation of Emergency Aid Reserve (EAR) or, in exceptional cases, by proposing a mobilisation of the Flexibility Instrument. The final voted budget figures therefore include the funding that has been mobilised from various sources, according to the availability of the funds at the relevant moment.

² The margin is defined as the difference between the expenditure ceiling of the expenditure heading in a given year and the amounts budgeted/programmed for the same year.

³ Budget 2007 includes changes in programme envelopes (compared to PDB 2007): Reinforcements: EUR 160 million for DCI; EUR 8 million for IPA; EUR 6,3 million for IfS and EUR 1,5 million for TRADE; Sources: EUR 115 million from margin; EUR 40 million from ENPI; EUR 21,4 million from Macroeconomic assistance.

Table 2 - Evolution of Heading 4 budget 2007-2010: PDB, margins, final budget

(Commitment appropriations, in million EUR ; at current prices)

	2007	2008	2009	2010
Financial Framework ceiling at current prices (including EAR)	6.812,527	7.481,218	7.684,000	8.141,882
Financial Programming (including EAR)	6.702,527	7.323,976	7.497,033	7.928,616
Initial Margin	110,000	157,242	186,967	213,266
Emergency Aid Reserve (EAR)	234,527	479,218	244,000	248,882

PRELIMINARY DRAFT BUDGET (PDB) (including EAR)	6.702,527	7.151,414	7.440,432	7.921,091
PDB margin	110	329,804	243,600	220,791

VOTED BUDGET (including EAR)	6.812,460	7.551,218	8.103,930
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FINAL BUDGET (including amending budgets)⁴	6.627,200	7.550,544	8.246,930
EAR not used ⁵	185,327	0,674	101,000
Use of the Flexibility Instrument	-	-70,000	-419,930

⁴ Figures for final budget 2009 and use of EAR 2009 are reflecting the situation at the end of June 2009

⁵ For 2009, the figure given is after excluding €65 million requested to respond to humanitarian crises in Pakistan and Somalia.

3. UNFORESEEN CRISES AND NEW PROPOSALS 2007–2009

3.1. Unforeseen and Protracted Crises

3.1.1. *Palestine*

In the first year of the multiannual financial framework, tensions in the **Middle East Peace Process** increased and the economic and humanitarian situation in **occupied Palestinian Territories** deteriorated to the point that the population in the West Bank and Gaza became highly reliant on sustained external assistance. The virtually permanent closure of the borders intensified the dependence on outside help. A fiscal crisis has persisted and worsened in the meantime. In order to maintain a minimum of socio-economic stability, the EU engaged to support the Palestinian Reform and Development Plan of the Palestinian Authority. Between 2007 and 2009 a total of EUR 671 million in additional commitment appropriations – compared to PDB levels - has been added to the corresponding budget line.

3.1.2. *Kosovo and Georgia*

The crises in **Kosovo** and **Georgia** are also cases where political developments and unforeseen events – the declaration of independence in the former, the conflict with Russia in the latter case - have entailed additional needs that were not foreseen in the initial financial programming and could not be met by the initially programmed funds under the corresponding geographic instruments alone. Again, the relevant crisis response mechanisms, notably the ESDP missions under the CFSP budget, Macro-financial Assistance and the Instrument for Stability, enabled the EU to react to these crises in a constructive and stabilizing manner. The EU's political commitment was reflected in the respective pledges announced at the international donors' conferences in 2008. The IPA (EUR 100 million), MFA (EUR 60 million) and the CFSP (EUR 70 million) allocations had to be topped up to provide an adequate level of support in Kosovo, while the ENPI budget was replenished in order to facilitate post-conflict assistance in Georgia, most notably urgent aid to internally displaced people.

3.1.3. *Humanitarian & Food Aid*

Furthermore, in the face of the rapidly rising food prices there was an increasing demand for Food Aid which brought about an early exhaustion of the **Humanitarian & Food Aid** budget in 2008 and required a topping up by EUR 177 million by recourse to the Emergency Aid Reserve so as to maintain an adequate disaster response capacity. In June 2009 the Commission has been faced with two major humanitarian crises in Pakistan and in Somalia, which required additional funding of €65 million that has been provided from the Emergency Aid Reserve.

3.1.4. *Food Facility*

At the turn of 2008 the existing set of instruments and budgets turned out to be insufficient to tackle the sudden price surge in the world food markets. The observed and projected dire consequences for many farmers and the populations in poor countries led the Commission to propose the setting up of a new **Food Facility** of EUR 1 billion to help alleviate the situation.

3.1.5. *Climate change*

In the budgetary procedures between 2007 and 2009, the DCI thematic programme for Environment and Natural Resources (ENRTP) was reinforced by some EUR 175 million from the available margin 2007-2013 in order to strengthen the EU's capacity to address climate change (including the funding of the Global Energy Efficiency and Renewable Energy Fund initiative - GEEREF).

3.2. The budgetary responses to crises

The main geographic and thematic programmes have a relatively broad scope and eligibility so that there remains some leeway to take crisis and urgent needs into account, albeit with a certain time lag. They are complemented by specific instruments designed to address specific needs and in particular to provide a response to crisis situations: the Humanitarian & Food Aid Regulation (HUMA), the Common Foreign and Security Policy (CFSP), the Instrument for Stability (IfS), Macro-Financial Assistance (MFA) and the external dimension of the Civil Protection Financing Instrument (CPFI).

In the face of unforeseen crises, the Commission reacts by mobilizing a range of crisis response mechanisms, ranging from interventions under the Instrument for Stability to ESDP missions – or by creating new instruments, such as the Food Facility. To a certain extent, the programming under the geographical instruments also foresees some room of manoeuvre for contingencies. Nonetheless, a number of crises required the mobilization of resources beyond the programmed funds available under geographical instruments.

Besides the dedicated crisis instruments, the Commission can propose the use of the means provided by the Interinstitutional Agreement to respond to emergency or unforeseen crises in the world. Firstly, a **growing unallocated margin** under the expenditure ceiling of Heading 4 was originally foreseen over the period 2007-2013 to respond to new needs emerging in the course of the annual budgetary procedure. Secondly, the **Emergency Aid Reserve (EAR)** can be mobilised in the course of the budget year to respond mainly to emergency situations of humanitarian character, but also civil crisis management, after all possibilities of internal **redeployment of budgetary means** have been exhausted. In case the additional needs for certain areas are known before the adoption of the budget and no margin is available under Heading 4, the Commission can propose the mobilisation of the **Flexibility Instrument**. In the past three years, various combinations of these different means available for facing unexpected needs have been mobilised. With the exceptional situation of soaring food prices in 2008, the Budgetary Authority agreed on the creation of a EUR 1 billion Food Facility (over the period 2008-2010), through redeployment of funds from the Instrument for Stability (EUR 240 million), recourse to the Emergency Aid Reserve (EUR 340 million) and Flexibility Instrument (EUR 420 million) at the same time. This situation even required an **amendment to the Interinstitutional Agreement (IIA)** on budgetary discipline and sound financial management to allow a one-off increase of the EAR in 2008 (by EUR 240 million).

3.2.1. *Change of priorities/Redeployment*

A first path explored in reaction to unforeseen events is the possibility of **re-prioritizing existing programmes and measures when the Commission presents its PDB**, without jeopardising the implementation of the foreseen objectives of the adopted programmes. As an illustration, some of the funds under the Annual Action Plan for Georgia in 2008 were re-oriented to pay for immediate post-conflict measures, such as emergency help for internally displaced people. Another example: a share of the appropriations already budgeted to fund development and investment activities in Palestine were channelled via the PEGASE mechanism to cover recurring expenditures of the Palestine Authority in order to maintain basic services in particular for health and education. Transfers of appropriations from various budget lines have also been used whenever possible.

3.2.2. *Use of the unallocated margin*

Once having exhausted the redeployment possibilities, the Commission has proposed the recourse to the un-allocated **margin** under the expenditure ceiling. As summarized in table 3, the margin after the PDB 2007 was fully used to adapt the envelopes for different programmes (see footnote 3 under section 2.1.2 above), the remaining margin after the PDB in 2008 and 2009 was used to strengthen a

number of budget lines to respond to crisis situations, most prominently for Palestine (EUR 281 million in 2008 and 2009 corresponding to 43 % of the overall reinforcement over this period).

Table 3 - Use of the unallocated margin

(Commitment appropriations, in million EUR ; at current prices)

	2007	2008	2009
Preliminary Draft Budget (PDB without EAR)	6.468,000	6.672,196	7.196,400
MARGIN	110,000	329,804	243,600

Increases during budgetary procedure	114,933	399,804	662,939
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ENPI (Palestine)	-	142,000	139,000
CFSP (Kosovo)	-	70,000	-
IPA (Kosovo)	-	60,000	40,000
MFA	-	60,000	-
European Parliament (Pilot Projects/Preparatory Actions)	-	67,804	63,939
FOOD FACILITY	-	-	420,000

Budget	6.577,933	7.072,000	7.859,930
Margin / use of Flexibility Instrument	0,067	-70,000	-419,930

3.2.3. *Transfers in the course of budget implementation*

Transfers are used in the course of budget implementation to re-channel funds from programmes with relatively slower budget execution to those where needs are higher than originally budgeted. **Redeployment by internal transfer** inside a budget Chapter or article is a preferred option because the appropriations remain within the same activity or geographic region and are usually also covered by the same legal base. As an example, the budget lines for Palestine and ENP East have been reinforced by transferring unused funds available under the Cross-border cooperation line and the ENP-Mediterranean line, while respecting the agreed geographical balance.

Re-deployments across Chapters by means of transfers authorised by the Budgetary Authority have been used to finance outstanding needs (for Palestine: EUR 286 million, i.e. 42 % of the overall reinforcements 2007-2009 have been re-allocations from various other instruments such as the Loan Guarantee Fund and Macro-financial assistance. For Georgia, as well, EUR 8 million have been re-allocated from other Chapters. IPA was also reinforced by EUR 60 million by means of transfers in the course of the budget execution in 2008.

3.2.4. *The Emergency Aid Reserve*

According to point 25 of the IIA, a transfer from the **Emergency Aid Reserve** must be preceded by an examination of the scope for reallocating appropriations. In the past three years, the EAR has been used to respond to additional needs in Palestine, Georgia and to number of humanitarian crises and food aid crisis in 2008. In 2008 and 2009, the EAR contributed to the financing of the Food Facility for EUR 340 million (of which EUR 262 million in 2008 including a one-off increase of the EAR agreed in an amendment of the IIA, and EUR 78 million in 2009). In June 2009 the Commission

proposed the mobilisation of a further EUR 65 million from the EAR to respond to humanitarian crises in Pakistan and Somalia.

Table 4 - Use of EAR 2007-2009

(Commitments in million EUR; at current prices)

	2007	2008	2009
Mobilisation of the EAR	49,200	478,544	143,000
Humanitarian Aid	-	177,000	65,000
ENPI Georgia	-	39,544	-
Food Facility	-	262,000	78,000
ENPI Palestine	49,200	-	-

Over the last 15 years the annual average mobilisation of the EAR was around EUR 200 million (excluding the 2008 one-off increase of the EAR funds).

3.2.5. *The Flexibility Instrument*

The **Flexibility Instrument** allows the financing of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings. Again, any proposal to make use of the Flexibility Instrument must be preceded by a thorough examination of all other possibilities for re-allocating appropriations under Heading 4. The annual ceiling of the Flexibility Instrument is fixed at EUR 200 million and its unused portions can be carried over up to year n+2.

Use of Flexibility instrument (for Heading 4):

2008 - EUR 70 million

2009 - EUR 420 million

In 2008 after having fully exhausted the margin of Heading 4, EUR 70 million were mobilised from the Flexibility Instrument to finance the CFSP mission in Kosovo.

The budgetary procedure for Budget 2009 has been strongly influenced by the problem of soaring food prices, which resulted in additional needs of EUR 1 billion over the period 2008-2010, requiring a contribution of EUR 420 million from the Flexibility Instrument.

Table 5 - Use of Flexibility Instrument 2007-2009

	2007	2008	2009
Existing carry-overs			
year n - 2	18	200	130
year n - 1	200	200	200
Amount year n	200	200	200
Total available	418	600	530
Amounts mobilised			
on year n - 2	0	200 ⁶	130
on year n - 1	0	70 ⁷	200
on year n	0	0	90
Total mobilised in year n	0	270	420⁸
Amounts to be carried over			
From year n - 2	0	0	0
From year n - 1	200	130	0
From year n	200	200	110
Total	400	330	110

3.2.6. *Amendment of the IIA*

Finally, the financing of the Food Facility required the whole battery of mechanisms available, including, and as a matter of 'last resort', **a modification of the IIA, which in the specific case concerned a one-off increase in the amount of the EAR in 2008.**

3.3. **New proposals**

For the period 2010 to 2013, the Commission has proposed some **policy-driven reinforcements** which have had an impact on the financial programming of Heading 4. The appropriations for the policies combating climate change, the Eastern Partnership and for non-ODA⁹ activities in DCI countries (ICI+) are prominent examples hereof (see section 5.2 below). The approach and rationale in identifying and mobilizing the concomitant sources of financing, however, remain the same.

⁶ Heading 3 - EUR 200 million for Galileo

⁷ Heading 4 - EUR 70 million for CFSP budget (ESDP mission EULEX Kosovo)

⁸ Heading 4 - EUR 420 million for Food Facility (as part of total funding of EUR 1 billion over period 2008-2010)

⁹ ODA = Official Development Assistance

4. BUDGET IMPLEMENTATION 2007-2009

4.1. Commitments and payments

As presented in the recently published Commission Communication of 21 April 2009 on a "Mid-term review of the financial instruments for external actions" (COM (2009) 196 final), the high implementation rate for 2007 and 2008 is a result of the recent reform of the financial instruments from 2007; this major rationalisation and simplification has proved to streamline procedures to make aid programming, delivery, and crisis response more effective, efficient and flexible.

The high implementation rate can also be explained by a close monitoring of the different Instruments that, in order to optimise the use of funds, has enabled the Commission to propose to the Budget Authority the necessary transfers from one Chapter to compensate for shortcomings in other Chapters in Heading 4.

The implementation of voted appropriations in Heading 4 has reached 99,3 % for the Budget 2007 for commitment appropriations taking into account carry forwards to 2008 and 94,8 % for payments appropriations.

As illustrated by the table in Annex, the execution of the Budget 2008 attained 99,6 % for commitment appropriations taking into account carry forwards to 2009 and 92,0 % for payment appropriations.

The latest analysis in the framework of the Budget Forecast Alert as of 31.5.2009 confirms that implementation for 2009 is slightly ahead of forecast in commitment appropriations as well as in payment appropriations under Heading 4. Full implementation is envisaged across all instruments by the end of the 2009.

4.2. Outstanding needs in 2009

Concerning assistance to Georgia in the aftermath of the turmoil in August 2008, the post-conflict assistance 2008-2010 was announced at an indicative amount of *up to* EUR 500 million, whereas a concrete pledge at the international donors' conference was made for EUR 483,5 million. The 2008 tranche of this pledge has already been fulfilled, the corresponding funds being drawn from various budget Chapters. The mobilization of the full array of crisis intervention instruments complemented the post-conflict package under the ENPI. The Emergency Aid Reserve was tapped and supplemented by a number of internal and cross-Chapter transfers in order to honour the pledge made at the international Donors' conference in Brussels in October 2008.

For 2009, a limited financing gap between budgeted amounts and the level of the pledge remains. However, any further follow-up is strictly conditioned upon a re-assessment of the situation in Georgia, which is currently ongoing. A first such assessment report was published in July 2009 and indicates the need for continued donor support. The Commission is currently exploring possibilities for narrowing the EUR 50 million gap, which remains between the planning figures and the pledge for 2009. This will be partly achieved by re-allocations within the ENPI programmes. The exact amount and nature of any additional aid will depend on the results of the aforementioned re-assessment.

After taking into account the latest two transfer requests for Pakistan and Somalia, EUR 101 million is left in the EAR to tackle possible emergency situations of humanitarian character for the rest of the year.

5. 2010 AND BEYOND

This section of the report provides a brief assessment of the budgetary means available over the next four years to cope with future additional needs.

5.1. Overall increase of Heading 4

The expenditure ceiling of Heading 4 on average increases by around 6.8 % (\pm EUR 550 million) per year between 2009 and 2013 (excluding the EAR). The main programmes (IPA, ENPI, and DCI) are characterised by a substantial increase, which ought to allow for some room of manoeuvre to tackle policy developments. The capacity to respond to political and budgetary challenges lies also and partly in the mainstreaming of certain priorities into the programming of the main instruments (review of the strategic programming documents, in particular the national and regional indicative programmes under the ENPI), or in the flexibility already envisaged when setting up those programmes. For example the 3 years rolling Multi Annual Indicative Financial Framework - MIFF - under IPA allows for shifting appropriations from components I and II to components III, IV and V dedicated to candidate countries¹⁰ in case of a change of status of a beneficiary country without needing additional means. However, any change in the allocation should take into consideration the time horizon of the different programs, in particular those, which need a stable mid-term financial perspective for strategic planning and long term investments (such as in case of IPA).

5.2. New programmes and a flat and limited margin

In the negotiations for the financial framework for 2007 to 2013, it was agreed to leave a significant growing margin under Heading 4 designed to accommodate unforeseen events or possible policy changes till the end of the period.

The Commission, when presenting its PDB, has done its utmost to increase the margin where possible and to maintain the growing profile. The Commission takes into account not only the execution in previous years, but a number of factors such as the current pace of the programmes, previous reductions and needs for compensation or re-equilibration of different components of programmes.. Reductions which would go above a certain level might affect the effectiveness of the EC external actions and development aid. So far, the availability of unallocated margins has made it possible to respond not only to unforeseen events (Kosovo, Palestine, etc.), but also to take account of some policy developments (climate change under the ENRTP of DCI, setting up of the Eastern partnership under the ENPI, amendment of ICI) while still leaving some room for manoeuvre in the course of the annual budget procedure.

However, as a consequence of the recurring and increased pressure on Heading 4, the margin for the years to come is now at a constant and more limited level, offering less room for manoeuvre under Heading 4 compared to the initial programming (see table below). This is mainly due to the Climate Change/GEEREF initiatives (EUR 175 million over the period 2007-2013), the Eastern Partnership (EaP) and the proposed amendment of the ICI regulation (ICI+), which were not included in the original planning.

The Eastern Partnership was launched at the Prague Summit on 7 May 2009, following a proposal of the Commission. Its main goal is to create the conditions to accelerate political association and further

¹⁰ To ensure targeted, effective and coherent action, the IPA is made up of five components, each covering priorities defined according to the needs of the beneficiary countries:

I. Support for transition and institution-building; II. Cross-border cooperation; III. Regional development; IV. Human resources development; V. Rural development

economic integration between the EU and Eastern European partner countries. It seeks to support their political and socio-economic reforms, facilitate approximation towards EU standards and serves the shared commitment to stability, security and prosperity of the entire European continent. In order to support financially the new initiatives included in the Partnership (Comprehensive Institution Building programmes, Multilateral dimension and Economic and Social Development) EUR 600 million (EUR 250 million by re-programming and EUR 350 million from the margin) were made available for the period 2010-2013.

The Mid-Term Review of the external action financial instruments identified an "eligibility gap" for non-ODA activities (non Official Development Assistance) in DCI countries. As a consequence an amendment of the ICI instrument has been proposed. The Commission has thus proposed to extend the geographic coverage of the ICI instrument to the DCI countries in order to give a legislative follow up to four Preparatory Actions (two PA concerning business and scientific exchanges with India and China and two PA on cooperation with Middle Income Countries in Asia and Latin America) and to finance cooperation on non-ODA activities. This includes the European mobility component of the Erasmus Mundus External Cooperation Window. For the period 2010 to 2013, the proposed extension of the ICI instrument amounts to EUR 176 million of which EUR 109.5 million stemming from redeployments within the DCI programme and EUR 67.5 million from the margin. Once amended the ICI legal base will integrate the Preparatory Actions mentioned above that used to be financed from the margin of Heading 4.

All in all EUR 478.5 million have been taken from the margin over the 2010- 2013 period for the financing of policies to combat the Climate Change (EUR 60 million), ICI+ (EUR 67.5 million) and the Eastern Partnership (EUR 350 million), which mainly explains the resulting flat and constant profile of the margin in 2011 to 2013. Table 6 below shows how the margin was partly used to accommodate those new needs in the years to come and Table 7 shows (not exhaustively) the impact on the resulting margins:

Table 6 - Recourse to the margin 2010-2013 for Climate change, ICI+ and the Eastern Partnership

(in million EUR ; at current prices)

	2010	2011	2012	2013
Climate change	-10,000	-15,000	-15,000	-20,000
ICI+	- 15,000	- 17,500	- 17,500	- 17,500
Eastern Partnership	- 25,000	- 53,000	- 113,000	- 159,000

Table 7 - Expenditure ceilings and financial programming of Heading 4 2010-2013

(in million EUR ; at current prices)

	2010	2011	2012	2013
Financial framework ceiling at current prices	7.893,000	8.430,000	8.997,000	9.595,000
Financial Programming	7.679,734	8.276,908	8.843,631	9.441,403
INITIAL MARGIN	213,000	247,000	293,000	334,000
PRESENT MARGIN	220,791	153,092	153,369	153,597
Emergency Aid Reserve	248,882	253,860	258,937	264,115

5.3. Possibilities for redeployment are drying up

As mentioned above, the Commission makes recourse to crisis response instruments in the case of need. So far, the three following instruments have been used since 2007 to satisfy substantial additional needs, either when preparing the PDB (by increasing the available margin of Heading 4) or while implementing the Budget (through adjustments of priorities within the same instrument and /or via budgetary transfers): the Instrument for Stability, the provisioning mechanism of the Loan Guarantee Fund and the Macro-Financial Assistance.

A careful assessment of expected evolution of needs addressed by those three instruments indicates that the possibilities in the years to come to use them as a possible source of redeployment are much more constrained.

Due to the financing of the Food Facility, the operational expenditure for the Instrument for Stability (IfS) has been reduced by EUR 240 million over the period 2008-2013. The expenditure profile of other instruments (ENPI, DCI and IPA) has been backloaded to allow the progressive increase of the IfS over time while leaving the annual margins unchanged.

The needs for provisioning the Guarantee Fund stems from the level of outstanding guaranteed operations under the Guarantee Fund (disbursement rhythm of the European Investment Bank and from the number of MFA loans granted by the European Union). The target amount of the Fund corresponds to 9 % of the outstanding capital liabilities.

Regarding the EIB external mandate, the latest estimates available indicate a slight increase in the disbursement rhythm. The financial and economical crisis have reinforced the importance of the EIB in alleviating the consequences of the crisis and caused a speeding up in the fulfilment of its external mandate. This increased disbursement will require a higher provisioning of the Guarantee Fund in the years to come (an increased disbursement rhythm corresponds to an increased outstanding capital liabilities to be covered at the 9 % target).

In addition to the EIB external mandate, the Macro-financial assistance (MFA) to non-EU countries has for the past two decades been an important Community crisis response instrument. However in the previous years and especially in 2008, the Commission has redeployed appropriations from the MFA grant budget line when needs and/or criteria were not fulfilled.

In the present crisis context, a number of pre-accession countries and neighbourhood countries have already requested – or are likely to request in the course of this year – new macro-financial assistance. If the number of MFA loans were to be increased in the following years, the Commission would not be able to divert appropriations linked to the MFA budget line to serve other purposes, thus limiting its flexibility when implementing the budget. It will also have an impact on the needs for provisioning the Guarantee Fund as those potential lending operations are also covered by the Guarantee Fund.

The conjunction of these two factors would substantially impact on the needs for provisioning the Fund in the last years of the financial framework and the Commission cannot rule out that the Fund will need to be provisioned at a level higher than the programmed one (EUR 200 million per year) in the years to come .

In the present crisis context and in view of the limited available resources in conjunction with the fact that most resources are already programmed under the main instruments of Heading 4, the Commission is currently reassessing the policy framework for such assistance (grant MFA).

5.4. Instruments for crisis response

As stated above, the margin under Heading 4 is more limited than initially programmed. The possibility to increase the margin while presenting PDB is constrained by the expected increased needs to provision the Guarantee Fund, thus limiting the possibilities of redeployments. On the other hand, the overall expenditure ceilings and some specific crisis instruments (as mentioned in Part I) designed to cope with uncertainty are characterised by increasing financial envelopes.

Some crisis response instruments, such as the Humanitarian Aid instrument are programmed on basis of a stable annual increase rate of around 3 %. The funds are every year fully absorbed given the steady increase in the number of natural and man made crises and the high number of protracted crises. On the other hand, instruments such as the Instrument for Stability and the Common Foreign and Security Policy have been programmed with rapidly rising profile with annual increases varying between 10 and 30 %. Even though the capacity of redeployment from the Instrument of Stability has been limited by the reduction of EUR 240 million as mentioned above, the instrument keeps its rising profile over the period 2010-2013 of about 20 %.

The use of the Civil Protection Financing Instrument is strictly based on unforeseen needs, therefore leaving towards the end of the year potential but uncertain unused funds available (depending on the number of emergencies have occurred during the year).

In accordance with the IIA, the Commission can propose the recourse to Emergency Aid Reserve to allow to the specific needs following events which were not foreseen when establishing the Budget. The scope for using the EAR is limited to humanitarian operations and for civil crisis management. However, the financing of the Food Aid Facility has only been possible by an amendment of the IIA resulting in one-off increase of EAR.

5.5. Flexibility instrument

Finally if all possibilities to accommodate unforeseen events are exhausted in a given year, the Commission could call for the mobilisation of the Flexibility Instrument, which allows the financing of clearly identified expenditure that could not be financed within the limits of the ceilings available for one or more other headings. Again, any proposal to make use of the Flexibility Instrument must be preceded by a thorough examination of all other possibilities for re-allocating appropriations under Heading 4. EUR 110 million are available in 2009, with the additional annual tranches of EUR 200 million in 2010-2013

6. CONCLUSIONS

The budgetary means and flexibility available in 2009 ought to be sufficient to cope with the identified needs. Coordination between the crisis intervention instruments and the geographical and thematic programmes, internal re-prioritization and the remaining Emergency Aid Reserve are expected to be sufficient to cater for the potential requirements, including the situation in Georgia, Palestine, Kosovo, Pakistan and Somalia.

The current architecture of the external assistance instruments in combination with the flexibility mechanisms provided for in the IIA have thus far provided a sufficient response.

From 2010 onwards, unforeseen new needs will have to be faced with available resources in competition with existing initiatives. The budgeting exercise will therefore have to find a proper balance to reflect agreed political priorities.

The upcoming review of country and regional strategy documents under the main geographic regulations will provide an opportunity to re-prioritize the multiannual indicative programmes and to mainstream some principle concerns such as climate change and energy security issues into all bilateral and multilateral cooperation.

Increasing financial envelopes for the main spending programmes, and the even more rapid increase of specific crisis instruments will make it possible to satisfy foreseen increased needs. On the other hand, the reduced and flat margin under the expenditure ceiling of Heading 4 and the reduced possibilities for redeployment will complicate the annual budgetary procedures in case of major unforeseen needs. In such cases, the Union may find it difficult to free up large sums within its existing crisis response or external assistance instruments making it necessary to have recourse to all the means available in the Inter-institutional Agreement.

Annex

**HEADING 4 / IMPLEMENTATION OF COMMITMENTS AND PAYMENTS AS AT 31st OF December 2008
ALL TYPES OF APPROPRIATIONS EXCLUDING EMERGENCY AID RESERVE**

(in million euros)

HEADING	COMMITMENTS				PAYMENTS			
	INITIAL BUDGET	BUDGETARY APPROPRIATIONS WITHOUT CURRENT RESERVE	IMPLEMENTATION AS AT DATE OF REPORT		INITIAL BUDGET	BUDGETARY APPROPRIATIONS WITHOUT CURRENT RESERVE	IMPLEMENTATION AS AT DATE OF REPORT	
			AMOUNT	%			AMOUNT	%
THE EUROPEAN UNION AS A GLOBAL PLAYER								
IPA (Instrument for Pre-Accession)	1.440,2	1.578,9	1.563,1	99,0%	2.934,4	2.534,8	2.114,0	83,4%
ENPI (European Neighbourhood and Partnership Instrument)	1.527,4	1.683,2	1.682,3	99,9%	1.178,5	1.519,3	1.511,4	99,5%
DCI (Development Cooperation Instrument)	2.253,2	2.273,4	2.272,3	99,9%	2.036,4	1.980,5	1.922,1	97,1%
ICI (Industrialised Countries Instrument)	25,2	25,2	25,0	99,1%	20,3	20,3	16,0	78,7%
EIDHR (Democracy and Human Rights)	147,2	147,2	146,9	99,8%	172,8	122,6	116,7	95,2%
INSC (Instrument for Nuclear Safety Cooperation)	72,5	72,5	72,5	100,0%	78,3	73,6	72,9	99,0%
IFS (Instrument for Stability)	179,1	177,1	176,5	99,7%	113,5	146,9	126,3	86,0%
HUMA (Humanitarian aid)	751,3	931,3	930,9	100,0%	754,3	874,9	869,4	99,4%
MFA (Macroeconomic assistance)	152,0	19,0	17,6	92,9%	112,0	82,3	40,4	49,1%
CFSP (Common Foreign and Security Policy)	285,3	287,0	286,7	99,9%	179,7	205,4	192,3	93,6%
LOAN (EC guarantees for lending operations)								
Other actions and programmes	180,3	437,6	159,8	36,5%	231,5	211,9	170,0	80,2%
Decentralised agencies	20,9	20,4	19,2		40,9	40,5	39,1	
TOTAL HEADING 4	7.034,5	7.652,8	7.352,9	96,1%	7.852,5	7.812,9	7.190,5	92,0%
Of which carried forward to 2009		-270,6						
		7.382,2	7.352,9	99,6%				
GRAND TOTAL / EU BUDGET	125.390,0	129.495,8	128.278,6	99,1%	117.344,4	113.823,79	110.449,5	97,0%