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COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N° 10
TO THE GENERAL BUDGET 2008**

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

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Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 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 Communities¹, as last amended by Council Regulation (EC) No 1525/2007², and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the Preliminary Draft Amending Budget No 10 to the 2008 budget.

¹ OJ L 248, 16.9.2002, p. 1.

² OJ L 343, 27.12.2007, p. 9.

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CHANGES TO THE STATEMENT OF EXPENDITURE BY SECTION

The changes to the statement of expenditure by section are forwarded separately via the SEI-BUD system. An English version of the changes to the statement of expenditure by section is attached for information as a budgetary annex.

1. INTRODUCTION

Preliminary Draft Amending Budget (PDAB) No 10 for the year 2008 covers the following elements:

- the need to budget a net increase in the forecast of revenue (EUR 1 198,7 million) after the revision of the forecasts of own resources and other revenue;
- the need for a decrease of payment appropriations in budget lines for headings 1a, 1b, 2, 3b and 4 (EUR 4 891,3 million), after taking into account the redeployments proposed in the global transfer.

2. INCREASE IN THE FORECAST OF REVENUE

2.1. Revision of own resources

In accordance with Article 16 of Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000³, the Commission has revised the forecasts for own resources. This refers in particular to VAT and GNI balances and to traditional own resources.

As far as the VAT and GNI own resources balances are concerned, and on the basis of the available information, the Commission proposes to enter an amount of EUR 1 823,7 million. This increase relates to chapters 3 1 and 3 2 of the revenue side of the budget.

At this stage the calculations for Member States' balances are still provisional because of the on-going verification of VAT and GNI data. This may lead the Commission to revise the figures in the course of the procedure for this PDAB.

The Commission also proposes to decrease Traditional Own Resources (TOR) by EUR 1 600 million in chapter 12 of revenue. The Amending Budget No 5/2008⁴ estimated the total of traditional own resources as a net amount of EUR 18 536,3 million. However taking into account the evolution of the cashed amounts since the beginning of the year, this is now estimated at EUR 16 936,3 million. If new actual data for the last quarter of the year would imply significant changes to this estimation, the Commission will revise its figures also in the course of the budgetary procedure.

2.2. Other revenue

Financial corrections in connection with the Structural funds (item 6 5 0 0)

Taking into account the cashed amounts for item 6 5 0 0, and assuming that these amounts will not be re-used this year, it is proposed to budget an amount of EUR 313 million.

Other non-assigned contributions and refunds (item 6 6 0 1)

³ OJ L 130, 31.5.2000, p. 1.

⁴ Adopted on 2 September 2008.

Considering the actual outturn for item 6 6 0 1 a supplementary EUR 33 million can be entered.

Interest on late payments and fines

Chapters 7 0 and 7 1 of the general statement of revenue account for interest on late payments and fines. The Amending Budget No 3/2008⁵ already increased amounts entered in Budget 2008 by EUR 849,2 million. Considering the amounts that at this stage of the year are cashed or will probably be cashed, it is proposed to enter an additional amount of EUR 629 million in the budget.

3. DECREASE IN PAYMENT APPROPRIATIONS

The Commission proposes to adjust the level of payment appropriations for certain budget lines in order to align them more closely to the latest estimates of needs and working on the assumption that the rebalancing of payment appropriations between budget lines requested separately by the Commission's in the so-called 'Global Transfer' will be accepted by the Budget Authority. The reduction in the level of payment appropriations proposed amounts to EUR 4 891,3 million.

3.1. Heading 1a Competitiveness for Growth and Employment

Completion of Programmes for Enterprises (- EUR 50 million)

The payment appropriations under the budget article 01 04 05 are paid into two Trust Accounts, managed on the Commission's behalf by the European Investment Fund (EIF). Payments in fulfilment of obligations undertaken by the EIF (on behalf of the Commission) are made by disbursements from these accounts, as required. The two accounts cover the two financial instruments, Guarantees and Venture Capital.

Under this programme, commitment appropriations are necessary for the Commission to authorise the EIF, as implementing organisation, to sign contracts with financial intermediaries. Payment appropriations are only partially required in the short term, since they are contingent upon certain conditions being met:

- for Venture Capital (VC) investments, funds are only paid to the VC company when they are needed to meet an investment or to pay eligible cost of the VC fund. If there is no investment, then there is no payment.
- for Guarantees, funds are only paid to a financial intermediary when defaults are realised and the financial intermediary requests payment under the guarantee. If there are no defaults, then there are no payments.

Since at all times the EIF must be in a position to make payments in a timely manner, payment appropriations are used to transfer sufficient funds to Trust Accounts (maintained by the EIF on behalf of the Commission). Regular monitoring is carried out as to the expected rate of payments, to ensure that sufficient funds continue to be available to the EIF at all times. "Sufficient" in this case is with reference to the expected rate of disbursement, not the

⁵ OJ L 208, 5.8.2008, p.1.

total commitment, as the contracts signed by the EIF have a significant lifetime. Payments of amounts committed can be made over a significant time period.

In view of the above, the amount of disbursements required in any given year can not be stated precisely in advance; the Commission's services remain in contact with the EIF during any given year, to adjust the requirements in the light of actual to-be-drawn payments.

In the light of the information received from the EIF, the Commission is proposing a decrease of payment appropriations from EUR 86,2 million to EUR 36,2 million, (- EUR 50 million). This estimate is based on the forecasted disbursement needs for the rest of 2008 that are very unlikely to exceed a maximum of EUR 36 million. Furthermore, there are sufficient funds already in the Trust Accounts to cover even significantly higher disbursements if necessary.

3.2. Heading 1b Cohesion for Growth and Employment

Structural and Cohesion Funds (- EUR 4 514,7 million)

In this Preliminary Draft Amending Budget, a reduction of EUR 4 514,7 million in payment appropriations for Heading 1b is proposed. The rationale for this is given below.

While the vast majority of Operational Programmes for the new 2007-2013 programming period were adopted in 2007, interim payments for these programmes will be negligible in 2008. Before submitting the first application for payment on a given operational programme, the Member State concerned must first submit a report on the management and control systems which has subsequently to be accepted by the Commission. Article 71 of Council Regulation 1083/2006⁶ stipulates that this report shall be submitted "at the latest within twelve months of the approval of each operational programme".

As of the end of September, the situation regarding these management and control systems reports was as follows. For European Social Fund (ESF) programmes, out of a possible 117 reports, 16 had been sent by Member States, of which two had been accepted. For European Regional Development (ERDF) and Cohesion Fund (CF) programmes; out of 316 system reports, 87 had been received by the Commission, of which 18 had been accepted. The submission of reports by the Member States has been slower than originally anticipated, and this has had a direct impact on the required payment appropriations for interim payments. Moreover, the approval of the management and control systems will not necessarily lead to an immediate inflow of payment claims as, especially for ERDF, Member States have indicated that they will not start spending until the management and control systems have been approved.

For the Cohesion Fund, and to a lesser extent certain operational programmes of the ERDF, the effect is compounded by the fact that the 949 Major Projects must also be submitted by Member States to the Commission for approval.

This means that almost all payments in 2008 for the 2007-2013 programmes have been limited to the programmed advance payments. Interim payments for the 2000-06 programmes have, however, exceeded expectations and consequently absorbed a significant part of the payments originally estimated for the 2007-13 programmes (EUR 7,3 billion have been transferred from the new programmes towards the old ones). However, an important number

⁶ OJ L 210, 31.7.2006, p.25.

of payments are currently suspended by the Commission for the 2000-2006 programmes, following audits of the management and control systems of certain specific operational programmes, and while awaiting for the Member States concerned to take the necessary corrective measures.

Taking into account the above, the Commission proposes to reduce payment appropriations for the following budget lines under Heading 1b:

Budget Line	Name	Change (EUR)
04 02 17	ESF — Convergence	-649 702 522
04 02 19	ESF — Regional competitiveness and employment	-965 000 000
13 03 16	ERDF — Convergence	-1 127 000 000
13 03 18	ERDF — Regional competitiveness and employment	-200 000 000
13 03 19	ERDF — European territorial cooperation	-158 000 000
13 04 02	Cohesion Fund	-1 415 000 000
Total Heading 1b		-4 514 702 522

It should be recalled that the 2008 budget requested by the Commission for Heading 1b was established under the hypothesis that all the 2007-2013 programmes would be adopted in 2007 and that execution would start immediately after their approval, leading to an appropriate level of interim payments.

3.3. Heading 2 Preservation and Management of Natural Resources

Reserve for Fisheries Agreements (- EUR 20,7 million)

The reserve line 40 02 41 02 includes appropriations for possible new Fisheries Agreements to be concluded with certain third countries. On the basis of the current situation of the negotiations with Liberia, Sierra Leone, Tanzania, Kenya and Senegal, the possible agreements with these countries will not be finalised up to the end of the year 2008. Consequently, the non-used payment appropriations of EUR 20,7 million can be cancelled. The corresponding commitment appropriations have been mostly used already in the context of the transfer DEC22/2008.

3.4. Heading 3b Citizenship

Public Health Programme (- EUR 13,6 million)

An under-implementation of about EUR 14 million in payment appropriations is expected on item 17 03 01 01 Completion of the Public Health programme (2003 to 2008) in 2008. There are two major reasons for this under-implementation.

First, an amount of approximately EUR 7 million in assigned revenue has been committed by the Public Health programme in the last quarter of 2007, allowing additional interesting projects to be financed by the programme. An equal amount was available in payments allocations, but given the commitment date, no payments could be made yet in 2007. These payment allocations have been automatically carried forward in 2008, but they were not foreseen when preparing the preliminary draft budget 2008, at the beginning of 2007. As a

direct consequence, the total payment appropriations available on this budget item are in excess by around EUR 7 million.

Moreover, for a large number of grants in the Public Health programme, prolongations have been granted by the Commission because the beneficiaries are experiencing difficulties in delivering the requested results in time. Also, some beneficiaries are late in producing their reimbursement files or the related evidence. As a consequence, several payments have been postponed to 2009 up to an amount of EUR 7 million.

Transition Facility for Institution Building after Accession (- EUR 26,7 million)

The main reason for the underspend is the suspension of payments to Bulgaria under the PHARE pre-accession assistance (see below) and the Transition Facility. On 23 July 2008, the European Commission adopted a decision withdrawing the right to manage programmes under the two aforementioned financial instruments for two of the four Bulgarian Implementing Agencies. It is therefore proposed to reduce the payment appropriations for article 22 03 01 by EUR 26,7 million.

3.5. Heading 4 EU as a Global Player

Instrument for Pre-Accession (IPA) — Human Resources Development (- EUR 47,6 million)

The Commission has not yet received the accreditation package and conferral of management request for IPA Component IV (Human resources) from the Turkish authorities. The formal transmission of the package was expected end of July according to information provided by the Turkish government in the margins of the Financing Agreement seminar which took place mid-July 2008.

The compliance assessment is still ongoing and no new date has been given concerning the submission of the accreditation package to the Commission. Even if the package had been received before end-September, it would not have been possible for the Commission's auditors to assess it, arrange for the accreditation mission and make sure (in the unlikely event that no blocking findings come out from the mission) that the conferral of management is ready for adoption by the Commission before the end of the year.

In addition, the text of the financing agreement has not been agreed with the Turkish authorities. Considering the schedule foreseen with another "information seminar" in mid-October and taking into account that negotiations and component-adaptation of the Commission model agreement can only start afterwards, it does not seem realistic that a financing agreement will be concluded before the end of the year.

As it will be impossible to achieve the conferral of management and the signature of the financing Agreement before year end, which are the conditions for the pre-financing payment, it is proposed to reduce the payment appropriations for article 04 06 01 by EUR 47,6 million.

Instrument for Pre-accession Assistance for Rural Development (IPARD) (- EUR 70 million)

As foreseen by the legal basis – no payments, including the pre-financing ones, can be made before the decision for the "conferral of management" is adopted by the

Commission. Given that the "conferral" will not take place during 2008 for any of the candidate countries all the payment appropriations for 2008 will remain unspent.

Candidate countries have to establish the relevant structures (national authorities and/or agencies) which will enable the implementation of the programmes in a sound financial manner and then proceed with all the accreditation controls at the national level. Then once submitted by the candidate countries, the Commission has to conduct verifications in order to assess the administrative structure and to determine whether the management and control systems specific for each measure achieve the Community standards.

Even though candidate countries demonstrated substantial efforts to obtain the conferral in 2008, it is now clear that it will not be achieved this year. The latest forecast indicates that Croatia will grant the accreditation of the measures by the end of October 2008 to request after that the "conferral of management" from the Commission which should be granted in the first half of 2009. For the other two candidate countries the delay will be longer given the delay in the national level accreditation and lack of experience with the management of Community funds. It is therefore proposed to decrease the payment appropriations for article 05 05 02 by EUR 70 million.

Instrument for structural policies for pre accession (ISPA) Completion of other previous projects (2000 to 2006) (- EUR 100 million)

The payment appropriations entered in budget line 13 05 01 01 are dedicated to the completion of projects in Bulgaria and Romania. The payment forecasts for this budget line have been significantly reduced by these Member States. This decrease in payment forecasts results from lower requests for reimbursements than expected in both countries as well as the suspension of payments for two Bulgarian projects. Following the suspension decision adopted in July 2008 by the Commission, no payment claims for the concerned projects are expected this year. By end November 2008 the Bulgarian authorities should implement a number of measures (further audits, development and implementation of action plan and changes in the financial management and control systems) to improve the overall management of both suspended projects. The Commission will follow up the implementation of these measures after they are completed and depending on the results, the Commission could either lift the suspension or decide a financial correction.

Accordingly, as a result of the decrease in payment forecasts, a reduction of EUR 100 million in payment appropriations is requested for item 13 05 01 01.

Cooperation with Developing Countries in Asia (- EUR 48 million)

Several payments foreseen in 2008 on budget item 19 10 01 01 should be reduced or cancelled for the following reasons:

- Bangladesh (Education Programme): The implementation of the programme is much slower than expected due to the November 2007 cyclone damage. Following the recommendation for a mid-term review of the programme, the level of disbursement for 2008 is reduced by EUR 17 million.
- India (Health Sectoral Budget Support): During the negotiations of the financing agreement with the Government of India, due to administrative difficulties on the

beneficiary side, the signature of the agreement has been delayed. Therefore, the initial estimated amount is reduced by EUR 13 million.

- India: For a contract on a programme for enrichment of school level education the final amount claimed, due to an unforeseen recovery order on the contractor, is lower than expected by EUR 1,7 million.
- Cambodia (Budget support programme): Due to slow progress in the Government's implementation of actions required before the release of funds, the EUR 5 million instalments will not be paid in 2008.
- Myanmar: The initially forecasted payment of EUR 4,3 million for contract with the United Nations Office for Project Services (UNOPS) regarding the "Three Diseases Fund" (HIV/AIDS, malaria and tuberculoses) has been revised to EUR 2 million since the audit has revealed some matters which do not allow for a full payment (reduction of EUR 2,3 million).
- Pakistan: Payment of a tranche release of EUR 6 million is not expected in 2008 for the "Education Sector Support Programme" due to the position of the World Bank which has decided to change its programme financing modality, resulting in the need for the EU to formulate a new policy matrix. As a consequence, the payment of the budget support will be delayed.
- Indonesia (Law and security programme): The signature of the financing agreement has been delayed by the Government so that the contracts have not yet been awarded. The payments linked with the signature of these contracts (EUR 3 million) are postponed to next year.

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2008 Financial framework		Budget 2008 (incl. AB 1-6/2008 and PDAB 7-9/2008)		PDAB 10/2008		Budget 2008 + AB 1-6/2008 and PDAB 7-10/2008	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	10 386 000 000		11 086 000 000	9 768 739 600	0	-50 000 000	11 086 000 000	9 718 739 600
1b. Cohesion for growth and employment	47 267 000 000		47 255 948 720	40 538 785 026	0	-4 514 702 522	47 255 948 720	36 024 082 504
Total	57 653 000 000		58 341 948 720	50 307 524 626	0	-4 564 702 522	58 341 948 720	45 742 822 104
<i>Margin⁷</i>			<i>-188 948 720</i>				<i>-188 948 720</i>	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	46 217 000 000		41 006 490 000	40 889 550 500			41 006 490 000	40 889 550 500
Total	59 193 000 000		56 314 715 538	53 241 270 053	0	-20 682 000	56 314 715 538	53 220 588 053
<i>Margin</i>			<i>2 878 284 462</i>				<i>2 878 284 462</i>	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	747 000 000		730 274 000	533 196 000			730 274 000	533 196 000
3b. Citizenship	615 000 000		888 034 197	981 444 203	0	-40 300 000	888 034 197	941 144 203
Total	1 362 000 000		1 618 308 197	1 514 640 203	0	-40 300 000	1 618 308 197	1 474 340 203
<i>Margin⁸</i>			<i>16 883 000</i>				<i>16 883 000</i>	
4. EU AS A GLOBAL PLAYER⁹	7 002 000 000		7 311 218 000	8 112 728 400	0	-265 600 000	7 311 218 000	7 847 128 400
<i>Margin</i>			<i>-70 000 000</i>				<i>-70 000 000</i>	
5. ADMINISTRATION¹⁰	7 380 000 000		7 279 207 193	7 279 767 193	0	0	7 279 207 193	7 279 767 193
<i>Margin</i>			<i>177 792 807</i>				<i>177 792 807</i>	
6. COMPENSATION	207 000 000		206 636 292	206 636 292	0	0	206 636 292	206 636 292
<i>Margin</i>			<i>363 708</i>				<i>363 708</i>	
TOTAL	132 797 000 000	129 681 000 000	131 072 033 940	120 662 566 767	0	-4 891 284 522	131 072 033 940	115 771 282 245
<i>Margin</i>			<i>2 814 375 257</i>	<i>9 607 842 430</i>			<i>2 814 375 257</i>	<i>14 499 126 952</i>

⁷ The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a. The Flexibility Instrument has been mobilised for an amount of EUR 200 million.

⁸ 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)

⁹ The 2008 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve. The Flexibility Instrument has been mobilised for an amount of EUR 70 million.

¹⁰ 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 77 million for the staff contributions to the pensions scheme.