



COMMISSION OF THE EUROPEAN COMMUNITIES

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2003/0245 (COD)

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND
OF THE COUNCIL**

**Amending Regulation (EC) no 1726/2000 on development cooperation with
South Africa**

(SEC(2003) 1135)

(presented by the Commission)

EXPLANATORY MEMORANDUM

Article 9.3 of Regulation 1726/2000 requests the Commission to “submit to the European Parliament and the Council a mid-term review by 31 October 2003 at the latest and an overall evaluation of the programme prior to the expiry of this Regulation. (...) If necessary, the Commission will propose amendments to this Regulation, taking into account the implications for South Africa of the new ACP/EU arrangements”.

The Commission is submitting the mid-term review along with this proposal. The review contains a summary assessment of the programme for cooperation with South Africa. It is based on the Country Strategy Evaluation, which was conducted in 2002, on the new Country Strategy Paper and Multi-annual Indicative Programme negotiated in 2002 as well as on a joint assessment made by the Commission and the South African National Authorising Officer.

The review recommends changes to be made to Regulation 1726/2000. The proposed amendments stem from the assessment of effectiveness of the programme, its implementation measures and from new developments that have occurred in the Commission’s development policies and in its relations with South Africa.

An overview of the proposed amendments is as follows:

- Regulation 1726/2000 has a validity of seven years. Article 6.1 requires triennial programmes to be carried out. In order for these programmes to be synchronised with the duration of the Regulation, the wording of Article 6 needs to be adjusted to allow four-year Indicative Programmes.
- Annex X of the Trade Development and Cooperation Agreement with South Africa holds an exchange of letters dealing with support to South African wine and spirits sector. Point 6 of the attachment reads as follows: “As an additional effort to the main objectives agreed for the development programme for the Republic South Africa to be funded by the European Community, the European Community will provide assistance of EUR 15 million for the restructuring of the South African wine and spirits sector and for the marketing and distribution of South African wines and spirits. Such assistance will commence at the entry into force of the Wine and Spirits agreement.” The Wine and Spirits Agreements have been signed on 28 January 2002. It is therefore necessary to include an additional amount of €15 million for the restructuring of the Wines and Spirits sector in the reference amount of 885.5 million mentioned in Art. 10.1.
- The aims of Regulation 1726/2000 as stated in Article 1 suggest that South Africa be the sole beneficiary of the EPRD. The focal areas as laid down in Art 2.2, include “support for (...) regional cooperation and integration”, suggesting that EPRD monies be spent also at a regional or continental level. Although it is clear that South Africa benefits directly and indirectly from programmes for regional cooperation and integration, the Regulation is silent on what balance must be found between EPRD and EDF contributions for financing such programmes. It does not say if this equilibrium must be achieved at project/programme level, in each budget

year or at MIP/RIP levels. More explicit provisions on EPRD funding of regional projects and programmes need to be included in Article 4.

- South Africa has an outstanding public expenditure framework and sound public finance management. This makes the country an excellent partner for sector-wide programmes and for funding through direct budget support. Article 4.2.a) of Regulation 1726/2000 also provides for this possibility, but the wording is somewhat ambiguous (“... including direct targeted budget support”) and could be interpreted as excluding untargeted budget support. It seems advisable to lift the ambiguity.
- Articles 4 (2), 5 and 7 of the Regulation need to be brought in line with the new Financial Regulation of the Commission and its implementing provisions, particularly concerning the use of a single currency, the types of support, the role of intermediary institutions and applicable procedures.
- Reference needs to be made to Protocol 3 to the Cotonou Agreement defining South Africa’s qualified states under this Agreement.
- Article 8 of the Regulation refers to a “Geographically competent committee” but fails to establish it. Legally speaking the Committee does not exist. In practice the EDF Committee has been acting as the “South Africa Committee”, albeit with a different weighing of Member States’ votes. It seems advisable, for the sake of good legal practice to formally establish the Committee. According to article 8 (5) the Commission must consult the Committee on financing decisions it intends to take concerning projects and programmes of a value of over EUR 5 million. In the interest of sound financial management and rationalisation of procedures, it seems advisable to raise this amount to €8 million.

Proposal for a

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THE EUROPEAN PARLIAMENT AND COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 179 thereof,

Having regard to the proposal from the Commission¹,

Acting in accordance with the procedure laid down in Article 251 of the Treaty²,

Whereas

- (1) Under Regulation (EC) No 1726/2000 of the European Parliament and of the Council of 29 June 2000 on development cooperation with South Africa³ the Commission is to submit to the European Parliament and to the Council a mid-term review by 31 October 2003 at the latest. On the basis of that mid-term review, certain amendments to Regulation (EC) No 1726/2000 have been suggested.
- (2) In accordance with Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests⁴ it is possible to provide funding to the Republic of South Africa through direct budget support. Regulation (EC) No 1726/2000 could, however, be interpreted as excluding untargeted budget support. In addition, Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities⁵ contains in Title IV of Part Two specific provisions for “External Actions”. It is, therefore, appropriate to bring Regulation 1726/2000 in line with Regulation (EC, Euratom) No 1605/2002 and with Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002, laying down detailed rules for the implementation of Council Regulation (EC, Euratom)

¹ OJ C ...

² OJ C ...

³ OJ L 198, 4.8.2000, p.1

⁴ OJ L 312, 23.12.1995, p. 1

⁵ OJ L 248, 16.9.2002, p.1

No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities⁶.

- (3) In view of the implementation of the European Programme for Reconstruction and Development, and in particular of the 2000-2002 Multi-annual Indicative Programme, Regulation (EC) No 1726/2000 should be adjusted, in particular in relation to the adoption of sector-wide Programmes, funding through budget support, and the joint funding of projects and programmes in the field of regional cooperation and integration.
- (4) Regulation (EC) No 1726/2000 entered into force in 2000 and expires on 31 December 2006. However, Article 6(1) requires triennial programming to be carried out. In order for programmes to correspond to the period of validity of the Regulation, provision should also be made for four-year Indicative Programmes.
- (5) The Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part⁷, to which South Africa is a signatory was signed in Cotonou on 23 June 2000. Protocol 3 to that Agreement defines South Africa's qualified status under the Agreement.
- (6) Council Decision 1999/753/EC⁸ approved the provisional application of the Agreement on Trade, Development and Cooperation between the European Community and its Member States and the Republic of South Africa. That Agreement stipulates in its Annex X that the Community will provide assistance for the restructuring of the South African wine and spirits sector and for the marketing and distribution of South African wines and spirits. The two corresponding Agreements on trade in wine and spirits have been approved by Council Decision 2002/51/EC⁹ and by Council Decision 2002/52/EC¹⁰ respectively. It is, therefore, necessary to include an additional amount in the financial reference amount provided for by Regulation (EC) No 1726/2000.
- (7) In practice the European Development Fund Committee has been acting in the context of Regulation (EC) No 1726/2000 as the "South Africa Committee". It is appropriate to formally establish that Committee.
- (8) Article 8 (5) of Regulation (EC) No 1726/2000 requests the Commission to consult the Committee on financing decisions it intends to take concerning projects and programmes of a value of over EUR 5 million. For the sake of sound financial management and rationalisation of procedures, it is appropriate to raise this ceiling to €8 million.
- (9) Regulation (EC) No 1726/2000 should, therefore, be amended accordingly.

⁶ OJ L 357, 31.12.2002, p.1

⁷ OJ L 317, 15.12.2000, p.3

⁸ OJ L 311, 4.12.1999, p.1

⁹ OJ L 28, 30.1.2002, p. 3

¹⁰ OJ L 28, 30.1.2002, p.112

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) N° 1726/2000 is amended as follows:

1. In Article 2(2) the introductory phrase is replaced by the following:

Development cooperation to be carried out under this Regulation shall focus mainly on the areas of cooperation referred to in Article 8 of Protocol 3 on South Africa to the Cotonou Agreement and in particular on:

2. Article 4 is amended as follows:

(a) Paragraph 2 is amended as follows:

- (i) in the first subparagraph, the introductory phrase is replaced by the following:

“2. Community financing may cover:”

(ii) point (a) is replaced by the following:

“(a) government budget expenditures to support reforms and policy implementation in the priority sectors identified through a policy dialogue, using the most appropriate instruments including budgetary support and other specific forms of budgetary aid.”;

(iii) the second subparagraph is replaced by the following:

“Part of the financing may be channelled towards targeted final beneficiaries (e.g. emerging entrepreneurs) in the form of risk capital or other forms of financial participation. The European Investment Bank may be associated to the management of these funds, as appropriate. The resources made available under this Regulation shall not be used in a manner that will permit unfair competition.”

(b) the following paragraph 4a is inserted:

“4a. Financing of individual projects and programmes for regional cooperation and integration shall be provided from the European Programme for Reconstruction and Development (EPRD) and/or from regional funds under the European Development Fund (EDF).

The Commission shall strive to ensure balanced funding from both sources at the level of the Multi-annual Indicative Programme, by committing to regional cooperation and integration an indicative percentage of the EPRD similar to the share of EDF funds dedicated to regional cooperation and integration in the Financial Protocol to the Cotonou Agreement.”

3. Article 5 is deleted
4. Article 6 is replaced by the following:

"Article 6

Programming

1. Multi-annual indicative programming shall be carried out in the context of close contacts with the South African Government and taking account of the results of the coordination referred to in Article 4(6) and (7). The indicative programming process will fully respect the principle of recipient-led programming.

2. In order to prepare for each programming exercise, in the context of increased coordination with the Member States, including on the spot, the Commission shall draw up a Country Strategy Paper in dialogue with the South African government. This Country Strategy Paper shall take into account the results of the most recent overall evaluation of operations financed under Regulation (EC) No 2259/96 and under this Regulation and of other regular evaluations of operations. It will be linked to a problem-oriented analysis, and integrate cross-cutting issues such as poverty reduction, gender equality, environment and sustainability. A draft of the Multi-annual Indicative Programme will be annexed to the Country Strategy Paper. A limited number of sectors of cooperation based on the areas identified in Article 2 of this Regulation will be selected. For these sectors, modalities and accompanying measures will be set out. As far as possible performance indicators will be developed in order to facilitate the implementation of the objectives and its evaluation of impact. The Country Strategy Paper and the draft Multi-annual Indicative Programme will be examined by the Committee referred to in Article 8(1), hereafter referred to as the "Committee". The Committee shall give its opinion in accordance with the procedure referred to in Article 8(2).

3. The Multi-annual Indicative Programme will be negotiated and signed by the Commission and the South African Government. The final result of the negotiations will be sent to the Committee for information. If requested by one or more Committee members, this document will be discussed by the Committee.

4. The Committee shall once a year review the functioning, results and continued relevance of the Country Strategy Paper and the Multi annual Indicative Programme. If evaluations or other relevant developments so indicate, the Committee may invite the Commission to negotiate with the South African Government amendments to the Multi-annual Indicative Programme.

5. The Committee shall once a year, on the basis of a presentation by the Commission, discuss the general guidelines for the operations to be carried out in the year ahead."

5. Article 7(2) is deleted.
6. Article 8 is amended as follows:
 - (a) paragraph 1 is replaced by the following:

"1. The Commission shall be assisted by the South Africa Committee, hereinafter referred to as 'the Committee'
 - (b) in paragraphs 5 and 6 the amount of "EUR 5 million" is replaced by the amount of "EUR 8 million".
7. In Article 10(1) the amount of "EUR 885.5 million" is replaced by the amount of "EUR 900.5 million".

Article 2

This Regulation shall enter into force on the twentieth day after its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

Policy area(s): 21 DEV

Activity: 21 03 Geographical Cooperation

TITLE OF ACTION: EUROPEAN PROGRAMME FOR RECONSTRUCTION AND DEVELOPMENT

1. BUDGET LINE(S) + HEADING(S)

21 03 17 (old B7-3200)

2. OVERALL FIGURES

2.1. Total allocation for action (Part B): €15 million for commitment

2.2. Period of application:

2004-2006

2.3. Overall multi-annual estimate of expenditure:

(a) Schedule of commitment appropriations/payment appropriations (financial intervention) *(see point 6.1.1)*

€million (to three decimal places)

	Year 2003	2004	2005	2006	2007	2008 and subs. Years	Total
Commitments	0,0	15,0	0,0	0,0	0,0	0,0	15,0
Payments	0,0	0,0	5,0	5,0	5,0	0,0	15,0

(b) Technical and administrative assistance and support expenditure *(see point 6.1.2)*

Commitments	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Payments	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Subtotal a+b							
Commitments	0,0	15,0	0,0	0,0	0,0	0,0	15,0
Payments	0,0	0,0	5,0	5,0	5,0	0,0	15,0

- (c) Overall financial impact of human resources and other administrative expenditure
(see points 7.2 and 7.3)

Commitments/ payments	0,0	0,0	0,0	0,0	0,0	0,0	0,0
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TOTAL a+b+c							
Commitments	0,0	15,0	0,0	0,0	0,0	0,0	15,0
Payments	0,0	0,0	5,0	5,0	5,0	0,0	15,0

2.4. Compatibility with financial programming and financial perspective

Proposal is compatible with existing financial programming.

Proposal will entail reprogramming of the relevant heading in the financial perspective.

Proposal may require application of the provisions of the Interinstitutional Agreement.

2.5. Financial impact on revenue:¹¹

Proposal has no financial implications (involves technical aspects regarding implementation of a measure)

OR

Proposal has financial impact – the effect on revenue is as follows:

(NB All details and observations relating to the method of calculating the effect on revenue should be shown in a separate annex.)

(€million to one decimal place)

Budget line	Revenue	Prior to action [Year n-1]	Situation following action					
			[Year n]	[n+1]	[n+2]	[n+3]	[n+4]	[n+5]
	<i>a) Revenue in absolute terms</i>		0,0	0,0	0,0	0,0	0,0	0,0
	<i>b) Change in revenue</i>	Δ	0,0	0,0	0,0	0,0	0,0	0,0

(Please specify each budget line involved, adding the appropriate number of rows to the table if there is an effect on more than one budget line.)

¹¹ For further information, see separate explanatory note.

3. BUDGET CHARACTERISTICS

Type of expenditure		New	EFTA contribution	Contributions from applicant countries	Heading in financial perspective
Non-comp	Diff	NO	NO	NO	N° [4]

4. LEGAL BASIS

Agreement on Trade, Development and Cooperation between the European Community and its Member States of the one part, and the Republic of South Africa of the other part, Annex X, Exchange of letters in relation to the Wine and Spirits Agreement between the European Community and the Republic of South Africa.

5. DESCRIPTION AND GROUNDS

5.1. Need for Community intervention ¹²

5.1.1. Objectives pursued

Annex X of the Trade Development and Cooperation Agreement with South Africa holds an exchange of letters dealing with support to South African wine and spirits sector. Point 6 of the attachment reads as follows: “As an additional effort to the main objectives agreed for the development programme for the Republic South Africa to be funded by the European Community, the European Community will provide assistance of EUR 15 million for the restructuring of the South African wine and spirits sector and for the marketing and distribution of South African wines and spirits. Such assistance will commence at the entry into force of the Wine and Spirits agreement.” The Wine and Spirits Agreements have been signed on 28 January 2002. It is therefore necessary to design and implement a support programme for the South African Wine and Spirits industry under the EPRD. The programme will be funded from an additional amount of €15 million to be added to the reference amount of 885.5 million mentioned in Article 10.1 of Regulation 1726/2000 of the European Parliament and of the Council of 29 June 2000 on development cooperation with South Africa.

5.1.2. Measures taken in connection with *ex ante* evaluation

No specific *ex ante* evaluation has been conducted for the Wine and Spirits sector programme. However, terms of reference are being drafted for a feasibility study, which will be carried out in 2004, with a view to defining the type of support the industry requires.

5.1.3. Measures taken following *ex post* evaluation

The Wine and Spirits industry support programme will be integrated in the general cooperation programme with South Africa, the EPRD, which includes a focal area “Equitable economic growth”. This covers *inter alia* private sector support, support to the Department of Trade and Industry’s “Integrated Manufacturing Strategy” as well as support to the South African Government’s policy in the field of Black Economic Empowerment. An overall

¹² For further information, see separate explanatory note.

Country Strategy Evaluation has taken place in 2002. It concluded that generally EPRD interventions are relevant to the needs of South Africa and that the overall EPRD strategy is sound. More specifically the evaluation report recommends *inter alia* strengthening private sector support in order to contribute to employment creation and income generation.

5.2. Action envisaged and budget intervention arrangements

The general objective of the intervention is to “provide assistance for the restructuring of the South African wine and spirits sector and for the marketing and distribution of South African wines and spirits”. In addition, its inclusion in the EPRD will give the intervention a clear developmental approach. Specific objectives, actions and outputs need to be defined by the proposed feasibility study. But even today it is obvious that the sector has a strong potential:

- The wine and spirits sector is a dynamic industry, producing quality products; it is increasingly successful on export markets. South Africa has become the seventh largest wine producing country in the world.
- The industry is labour intensive and has the capacity of generating more employment.
- Given the necessary support, the sector has the potential of developing emerging new entrepreneurs and offers opportunities for previously disadvantaged communities to establish small niche companies.

Depending on the outcome of the feasibility study, the intervention could take the form of a sector-wide support to the South African Governments policy in this field, of a private sector support programme in the wine and spirits sector and/or specific support actions.

5.3. Methods of implementation

Implementation methods will be consistent with the general implementation rules of the EPRD.

6. FINANCIAL IMPACT

6.1. Total financial impact on Part B - (over the entire programming period)

(The method of calculating the total amounts set out in the table below must be explained by the breakdown in Table 6.2.)

6.1.1. Financial intervention

The actions to be funded will be defined by the feasibility study.

Commitments (in €million to three decimal places)

Breakdown	2003	2004	2005	2006	2007	[n+5 and subs. Years]	Total
One Action :Programme on restructuring support for wine and spirits S.A. producers	0,00	15,00	0,00	0,00	0,00		
etc.							
TOTAL		15,00					

6.1.2. *Technical and administrative assistance, support expenditure and IT expenditure (commitment appropriations)*

The actions to be funded will be defined by the feasibility study.

	[Year n]	[n+1]	[n+2]	[n+3]	[n+4]	[n+5 and subs. years]	Total
1) Technical and administrative assistance							
a) Technical assistance offices							
b) Other technical and administrative assistance: - intra muros: - extra muros: <i>of which for construction and maintenance of computerised management systems</i>							
Subtotal 1							
2) Support expenditure							
a) Studies							
b) Meetings of experts							
c) Information and publications							
Subtotal 2							
TOTAL							

6.2. Calculation of costs by measure envisaged in Part B (over the entire programming period)¹³

The actions and measures to be funded will be defined by the feasibility study.

Commitments (in €million to three decimal places)

Breakdown	Type of outputs (projects, files)	Number of outputs (total for years 1...n)	Average unit cost	Total cost (total for years 1...n)
	1	2	3	4=(2X3)
<u>Action 1</u> - Measure 1 - Measure 2 <u>Action 2</u> - Measure 1 - Measure 2 - Measure 3 etc.				
TOTAL COST				

If necessary explain the method of calculation

7. IMPACT ON STAFF AND ADMINISTRATIVE EXPENDITURE

The actions to be undertaken will be integrated into the EPRD. As the total amount to be committed and disbursed will increase only marginally, no impact on staff or administrative expenditure is anticipated.

7.1. Impact on human resources

Types of post		Staff to be assigned to management of the action using existing and/or additional resources		Total	Description of tasks deriving from the action
		Number of permanent posts	Number of temporary posts		
Officials	A				<i>If necessary, a fuller description of the tasks may be annexed.</i>
or	B				
temporary staff	C				
Other human resources					
Total					

¹³ For further information, see separate explanatory note.

7.2. Overall financial impact of human resources

Type of human resources	Amount (€)	Method of calculation *
Officials		
Temporary staff		
Other human resources (specify budget line)		
Total		

The amounts are total expenditure for twelve months.

7.3. Other administrative expenditure deriving from the action

Budget line (number and heading)	Amount €	Method of calculation
Overall allocation (Title A7)		
A0701 – Missions		
A07030 – Meetings		
A07031 – Compulsory committees ¹		
A07032 – Non-compulsory committees ¹		
A07040 – Conferences		
A0705 – Studies and consultations		
Other expenditure (specify)		
Information systems (A-5001/A-4300)		
Other expenditure - Part A (specify)		
Total		

The amounts are total expenditure for twelve months.

¹ Specify the type of committee and the group to which it belongs.

I.	Annual total (7.2 + 7.3)	€
II.	Duration of action	years
III.	Total cost of action (I x II)	€

(In the estimate of human and administrative resources required for the action, DGs/Services must take into account the decisions taken by the Commission in its orientation/APS debate and when adopting the preliminary draft budget (PDB). This means that DGs must show that human resources can be covered by the indicative pre-allocation made when the PDB was adopted.

Exceptional cases (i.e. those where the action concerned could not be foreseen when the PDB was being prepared) will have to be referred to the Commission for a decision on whether and how (by means of an amendment of the indicative pre-allocation, an ad hoc redeployment exercise, a supplementary/amending budget or a letter of amendment to the draft budget) implementation of the proposed action can be accommodated.)

8. FOLLOW-UP AND EVALUATION

8.1. Follow-up arrangements

As the wine and spirits support programme will be integrated in the general cooperation programme with South Africa, follow-up arrangements will be those defined in Regulation 1726/2000 that apply to all EPRD projects and programmes.

8.2. Arrangements and schedule for the planned evaluation

As the wine and spirits support programme will be integrated in the general cooperation programme with South Africa, arrangements for evaluation will be those defined in Regulation 1726/2000 that apply to all EPRD projects and programmes: mid-term and final evaluations of the programme will be carried out. In conformity with Article 9 of Regulation 1726/2000, an end-of-term evaluation of the 2000-2006 EPRD will be submitted to the European Parliament and Council before the end of 2006.

9 ANTI-FRAUD MEASURES

Fraud prevention and protection measures will be those laid down in Article 7 of Regulation 1726/2000.