



EUROPEAN  
COMMISSION

Brussels, 6.6.2013  
C(2013) 3355 final

**COMMISSION IMPLEMENTING DECISION**

**of 6.6.2013**

**on modifying the Commission Decision C(2010)4744 for the action "PEGASE: Private Sector Development" and Commission Decision C(2011)5915 for the action "PEGASE: Support to Private Sector and Capacity Building to institutions related to the Economy" in favour of the occupied Palestinian territory (West Bank and Gaza Strip) to be financed from the general budget of the European Union**

## COMMISSION IMPLEMENTING DECISION

of 6.6.2013

**on modifying the Commission Decision C(2010)4744 for the action "PEGASE: Private Sector Development" and Commission Decision C(2011)5915 for the action "PEGASE: Support to Private Sector and Capacity Building to institutions related to the Economy" in favour of the occupied Palestinian territory (West Bank and Gaza Strip) to be financed from the general budget of the European Union**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to European Parliament and Council Regulation (EC) No 1638/2006 of 24 October 2006 laying down the general provisions establishing a European Neighbourhood and Partnership Instrument<sup>1</sup>, and in particular Article 13 thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002<sup>2</sup> (hereinafter referred to as 'the Financial Regulation'), and in particular Article 84 thereof,

Having regard to Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union<sup>3</sup> (hereinafter referred to as 'the Rules of Application'), and in particular Article 94 thereof,

Whereas:

- (1) Commission Decision C(2010)4744 adopted on 12 July 2010 approved the action "PEGASE: Private Sector Development" and Commission Decision C(2011)5915 adopted on 22 August 2011 approved the action "PEGASE: Support to Private Sector and Capacity Building to institutions related to the Economy.
- (2) The purpose of the present modifying Decision is to allow for a change in the management method of these two actions and to extend the respective implementation periods.
- (3) The Commission may entrust budget-implementation tasks under indirect centralised management (indirect management with a Member State agency) to the entity identified in this Decision, subject to the conclusion of a delegation agreement. The responsible authorising officer has accordingly ensured that this entity complies with the conditions of Article 56(1) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the

---

<sup>1</sup> OJ L 310, 9.11.2006, p. 1-14.

<sup>2</sup> OJ L 298, 26.10.2012, p. 1.

<sup>3</sup> OJ L 362, 31.12.2012, p. 1.

European Communities<sup>4</sup> (hereinafter referred to as 'the Financial Regulation 1605/2002') and of Article 35 of its Implementing Rules<sup>5</sup>.

- (4) The measures provided for in this Decision are in accordance with the opinion of the ENPI Committee set up under Article 26 of Regulation (EC) No 1638/2006,

HAS DECIDED AS FOLLOWS:

*Article 1*

Annex III of Commission Decision C(2010)4744 "PEGASE: Private Sector Development" is replaced by the Annex 1 of this Decision.

Annex II of Commission Decision C(2011)5915 "PEGASE: Support to Private Sector and Capacity Building to institutions related to the Economy" is replaced by the Annex 2 of this Decision.

*Article 2*

The budget-implementation tasks under indirect centralised management shall be entrusted to the entity identified in the attached Annexes, subject to the conclusion of the relevant agreements.

Done at Brussels, 6.6.2013

*For the Commission*

*Štefan FÜLE*

*Member of the Commission*

---

<sup>4</sup> OJ L 248, 16.9.2002, p. 1. These provisions remain applicable until 31 December 2013 according to Article 212 of the Financial Regulation.

<sup>5</sup> Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities. OJ L 357, 31.12.2002, p.1. These provisions remain applicable until 31 December 2013 according to Article 212 of the Financial Regulation.

## ANNEXES

### **Modifying Commission Decisions C(2010)4744 and C(2011)5915 in favour of the occupied Palestinian territory (West Bank and Gaza Strip)**

Annex 1: Action Fiche for "PEGASE: Private Sector Development"

Annex 2: Action Fiche for "PEGASE: Support to Private Sector and Capacity Building to institutions related to the Economy"

**Action Fiche for West Bank and Gaza Strip**

**1. IDENTIFICATION**

Title/Number	<b>PEGASE: Private Sector Development</b> CRIS: 2010/22476		
Total cost	EU Contribution: EUR11 million.		
Aid method / Method of implementation	Project approach – centralised management with the exception of component 2 “Palestinian Market Development Programme” to be implemented through indirect centralised management with the UK Department for International Development (DfID).		
DAC-code	32130	Sector	SME development

**2. RATIONALE**

**2.1. Sector context**

Economic growth in 2009 picked up significantly in the West Bank, but conditions in Gaza remain difficult. The Palestinian Authority (PA) has continued to build a solid track record in institution-building and economic and security reforms, supported by generous aid and Israel relaxed some restrictions on movement and access in the West Bank. However, there has been no additional significant easing of the West Bank’s restrictions so far in 2010, and economic activity in Gaza remains severely constrained by the persisting blockade. Real GDP growth in the West Bank and Gaza (WBG) is estimated at 6.8% for 2009, consisting of 8.5% growth in the West Bank and 1% in Gaza.

The Palestinian private sector is dominated by micro, small and medium-sized enterprises.

There have been industrial sectors that have proven resilient, as well as new services sectors that have started to develop on the back of the relatively high level of Palestinian education and the PA's strategic location in the Middle East, and adjacent to the region's richest economy.

In Gaza the export sector in particular has been all but obliterated by a combination of the impact of “Operation Cast Lead” and the commercial blockade imposed by Israel since June 2007. Although a very limited amount of economic activity has restarted as a result of coping mechanisms, including smuggling, and cash-for-work programmes (for which the Instrument for Stability is providing significant financing), the economic situation remains disastrous. In the meantime, the PA's Gaza Early Recovery and Reconstruction Plan, provides a comprehensive strategy for economic, social and physical reconstruction, to which the EU contributed in 2009 and undertook in its annual programme of that year to envisage further contributions to the implementation of the PA's Gaza Early Recovery and Reconstruction Plan in 2010.

Following thorough co-ordination with the PA and extensive consultations with the Member States, other major donors and, to some extent, with civil society, private sector development has been identified as a priority sector for the EU's 2010 programme.

## **2.2. Lessons learnt**

The delivery mechanism for the Gaza Early Recovery Programme will closely mirror the experience of the Commission's EUR 22 million PEGASE Private Sector Reconstruction in Gaza programme in 2009, which itself was based on the PEGASE Direct Financial Support operations launched in February 2008, in particular the system used for paying arrears to the private sector. Activities will be carried out in full co-ordination with the relevant Palestinian stakeholders, in particular the Prime Minister's Office, the Ministry of Finance, Ministry of National Economy and the Palestinian banks. The elaboration of all rules and regulations for the PSRG (Private Sector Reconstruction in Gaza) has proved quite a lengthy process. On the other hand, the Temporary International Mechanism (TIM) and the PEGASE mechanisms have proved very successful means of operating in the highly problematic environment of the Gaza Strip. This new activity will be able to build on the defined procedures and so move to implementation more quickly.

The EU also has a successful on-going portfolio of activities promoting investment and supporting business membership organisations in developing access to new markets for Palestinian SMEs, in particular with positive ROM assessments of its activities to promote access to credit. The focus of this fiche, on promoting early recovery in Gaza, providing direct support for new market development, and promoting trade in services is intended to address the problem of investing in fixed assets and other capital expenditure which would strengthen the country's industrial base. Support to the Palestinian Market Development (PMD) builds on recently completed Fund for New Market Development. A lesson learned from other schemes is that an insistence of matching finance from participating firms and regular visits to firms by project staff account managers will be important for protecting against misuse of funds.

## **2.3. Complementary actions**

This action is complementary to other projects of the EU supporting the Palestinian Private Sector. The EU has contributed EUR 14 million to the European-Palestinian Credit Guarantee Fund (EPCGF), which guarantees loans to SMEs through the Palestinian banking system. The EPCGF is co-financed by the EU and the Kreditanstalt für Wiederaufbau (KfW). Through PEGASE, the EU has also contributed EUR 22 million under the Private Sector Reconstruction in Gaza (PSRG) programme to provide immediate support to the private sector and thus take the first steps towards ensuring sustainable livelihoods in the Gaza Strip, providing financial support to enterprises affected by Operation Cast Lead in order that they may resume economic activity.

The EU supports the private sector institutional framework and the business environment through a number of interventions with the government as set out in the PEGASE - EU support for the PA Two-Year Plan for Statehood action fiche.

In Gaza, a significant allocation of funds from the Instrument for Stability (IfS) was made in the immediate aftermath of Operation Cast Lead, including EUR 13 million for an Emergency Job Creation Programme. The Gaza Early Recovery Programme (GERP) will build on the immediate emergency contribution from the IfS.

The Joint Committee established under the Interim Association Agreement has adopted a joint EU-PA "European Neighbourhood Policy Action Plan" in 2004, which includes a range of objectives including the promotion of an enabling environment for private sector development. The PA is a party to the EU's EuroMed Charter for Enterprise.

#### **2.4. Donor co-ordination**

High level international donor co-ordination takes place at the level of the Ad Hoc Liaison Committee (AHLC) which last met in Madrid on 13 April 2010. At the local level donor co-ordination takes place in various fora under the Local Development Forum (LDF) and its four "Strategy Groups" (governance, economy, social and humanitarian affairs, infrastructure), each co-chaired by a different lead donor and PA Ministry. Beneath these, a number of sector working groups (SWG) have been established, which are more operational fora for co-ordination and alignment of donor activities for the active stakeholders in each sector.

The Economic Strategy Group, co-chaired by the Ministry of Finance and the World Bank, is the operational forum for strategic PA-donor co-ordination in the global field of economic development.

More specifically, enhanced and targeted technical assistance will be co-ordinated with other donors through the Economic Strategy Group's Private Sector Development and Trade Sector Working Group EU Heads of Co-operation in Jerusalem and Ramallah are currently preparing a response strategy to guide the EU response to the PA's sector strategy for private sector development under the Palestinian National Plan 2011-13. The Commission has been designated as representing the EU as "lead donor" in this area. The work in preparing this has mapped the on-going and planned activities of EU (and non-EU) donors. Germany, the World Bank and US have on-going activities to develop a coherent legal and regulatory framework for enterprise while Finland and Canada plan to engage in this area. Germany and Sweden have on-going activities to strengthen private sector organizations and promote public-private dialogue. Canada also plans to engage in this area. The US plans additional support for improved border crossing infrastructure and management.

### **3. DESCRIPTION**

#### **3.1. Objectives**

The overall objective of this action is to promote sustainable, job-creating economic growth for the PA.

The specific objectives are to:

- Promote early recovery of the private sector in the Gaza Strip;

- Develop enhanced enterprise capabilities, innovation and competitiveness of Palestinian companies and economic sectors;
- Promote diversification of trade relations in both goods and services.

Support for early recovery of the private sector in the Gaza Strip will enhance results achieved under the PSRG and move beyond its scope to address economic losses incurred by enterprises, either as a consequence of the Operation Cast Lead or due to the prolonged siege. Some damaged sectors, such as agriculture, have not previously been targeted with EU support. This sector was explicitly mentioned in the Final report of the Damage Assessment and Needs Identification Mission in the Gaza Strip, launched by the Commission in 2009 in the aftermath of "Operation Cast Lead". The programme will provide businesses with financial support to assist the damaged enterprises to be productive again. This action will directly contribute towards sustaining and providing new employment and will help in ensuring a source of income for currently unemployed and vulnerable workers.

The easy access to Israel's markets that existed before the Intifada is no longer available to Palestinian businesses. To be successful, businesses need to develop new markets and new or improved quality products. With access restrictions as they are, few businesses are prepared to invest in an uncertain future. The Palestinian New Market Development Fund addresses this problem by reducing that risk through sharing the cost of such investments to improve their competitiveness and compete in new markets.

### **3.2. Expected results and main activities**

#### *Component 1: Gaza Early Recovery Programme (specific objective 1)*

The main expected result of this action is that damaged companies from the Gaza Strip will be able to re-launch their activity. Eligible applicants will include businesses which have received support under the EU's 2009 programme and have achieved good sustainability potential but need further funding to secure previous results.

The programme will also target businesses which have not received support under the EU's 2009 programme, e.g. in the agricultural sector, and are able to initiate their recovery through reconstruction and replacement of damaged capital equipment or through repair of damaged buildings and equipment, with a view to making them operative again quickly. In addition, companies which have suffered from the commercial blockade of Gaza since June 2007 but which were not directly physically affected by Operation Cast Lead will also be eligible.

#### *Component 2: Palestinian New Market Development (specific objective 2)*

The PMD project will consist of three areas of intervention as described below.

#### **•1: Direct assistance to firms**

##### 1.1: Matching Grant Provision



The PMD project will provide targeted assistance in the form of matching grants to help private sector firms access new markets and/or develop new products. The project will share the financial risk associated with innovation and promote replication of successful practices in order to encourage and stimulate diversification into new markets, products and processes.

• **2: Assistance to strengthen market systems**

- 2.1: Strengthening Business Development Service Providers (BDSs)

This intervention aims to assist companies identify gaps in their internal management processes, product and market development and encourage them to use BDSs to provide the necessary knowledge and technologies. The project will also work with BDSs to illustrate to them the value of upgrading their services and marketing them effectively. The overall aim is to facilitate the transaction between the firms and BDSs who could then be directed to apply for matching grants under the direct assistance to firms' intervention.

The PMD project will facilitate the provision of specialized and customized training to the currently weak ecosystem of BDS providers in West Bank and Gaza to strengthen their service quality and marketing capacity.

- 2.2: Strategic Interventions within Industry Value Chains

Activities will aim to address issues within existing industry value chains that may be cross-sector. The interventions will be based on diagnosis, research and analysis of the underlying cause of market failure following up on information gathered from matching grant scheme applications. The likely outcomes of the interventions will be to (i) identify un-addressed market failure in sub-sectors, i.e. packaging for food products; (ii) identify the critical issues to improve the situation, and (iii) design the interventions accordingly.

- 2.3: Building Diaspora linkages and investment opportunities

Activities will support the development of better market and investment opportunities for Palestinian businesses – both domestically and internationally. The focus will be on strengthening the engagement of investors with the local businesses to create further job opportunities, the Palestinian Diaspora. Interventions will help firms build international networks, facilitate B2B (business to business) through linkages with firms abroad.

*Component 3: Trade diversification programme (specific objective 3)*

The project will lead to the following results:

- An improved policy framework to support the development and competitiveness of the export sectors and increased capacity of private and public institutions to support and stimulate exports through the provision of relevant and accessible trade support services;

- Lead export and import products and specific destinations are identified;
- Required documents, specifications and standards are identified in order to access pre-determined markets for specific products;
- More Palestinian services have exported reaching regional and international markets by improving sector export performance and competitiveness;
- Palestinian public and private organizations take a more strategic approach to supporting export of services;
- Palestinian public-private sector partnership mechanisms are strengthened with increased networking and expanded outreach.

The main activities to achieve the improved policy framework will be the preparation of a national export strategy document and establishment of an operational National Export Council. In order to identify immediate enhanced foreign trade possibilities for specific products and destinations, activities to be undertaken will build on the results and achievements of the first phase of the Trade Corridors Facilitation Project (TCFP), which was concluded in October 2009, implemented by the Palestine Trade Centre in partnership with the Palestinian Shippers' Council (PSC), and funded by the EU. In the services sector, market opportunities for export of services from Palestine will be identified through specialized advice and research. A Services Road Map will be developed, incorporating the identification of market niches, trade barriers and regulatory framework recommendations.

In the event of political, security or other significant changes on the ground, in particular as regards access to and the Palestinian Authority's effective control over the Gaza Strip, the objectives, expected results and main activities as well as the budget and calendar described in this Action may be modified or added to, after agreement by the Authorising Officer and if necessary by the Commission, by means of concluding a rider to the Financing Agreement between the European Union and the PA referred to in part 4.1 below and always subject to the use of applicable methods of implementation and procurement and grant award procedures as set out, *inter alia* in the Practical Guide to Contract Procedures for EU External Actions

### **3.3. Risks and assumptions**

The pursuit of the EU's strategy in the occupied Palestinian territory is subject to unusual types and unusually high levels of risk. The most notable assumptions include: continuing occupation of the West Bank; continuing blockade of the Gaza Strip; failure to achieve reconciliation between the Palestinian factions; failure of Hamas to accept the Quartet principles. The main risks include a renewal of violent conflict between Palestinians and Israel, and renewal of violent conflict between Palestinian factions. In addition all projects requiring the import of goods, equipment and the free movement of service providers are at substantial risk from unpredictable policies by Israel.

Even if the main political risks to the strategy do not materialise, there are a number of other risks, of a more usual nature, to be taken into account, in particular given the

continuing high level of dependency on donor financing, a fall in the level of such financing remains a risk.

All actions under this special measure might be hampered by any additional restrictions imposed by the Israeli Government, for example, on the delivery of goods into the Gaza Strip or on financial transactions. On the other hand, if the Agreement on Movement and Access is implemented, this programme could be a powerful instrument at the disposal of the PA for the construction of a Palestinian state based on peace and prosperity and, in the case of the Gaza Early Recovery Programme, a potential instrument for governments of the EU to deploy targeted resources contributing to the successful recovery of the Gaza economy.

### **3.4. Crosscutting Issues**

Environmental sustainability is a central cross-cutting issue. Palestinian enterprises are typically small, using very old technology. This project can support access to new, more efficient and cleaner technologies in international markets. The enterprises cannot be competitive internationally if they do not conform to international environmental standards. Agribusinesses in the West Bank and Gaza have particular potential to market products internationally as organic. The PNMDF could help them learn about the necessary standards and certifications required. Both funds in the facility will include an environmental assessment criterion. The monitoring and evaluation unit will assess the environmental impact and suggest measures to strengthen performance where appropriate.

Also based on the experience of the EPCGF, environmental and gender issues are better addressed at the decision-making stage on providing direct support to firms, and through this can, for example, promote business start-ups by female entrepreneurs and the employment of more women by SMEs.

Good governance principles and the use of local systems are applied in the implementation mechanisms, in particular through the full ownership of the GERP programme by the PA. The specific attention given to control and audit helps to promote high standards of public financial management in the PA more generally. The Ministry of National Economy is included in the Steering Committee of the PNMDF and will be supported in its development of trade negotiation capacity through the attention given to improved public-private sector dialogue under the trade diversification project.

### **3.5. Stakeholders**

The direct beneficiaries of this programme are businesses affected by Operation Cast Lead and the commercial blockade of Gaza, SMEs with plans for expansion or potential to export, and the Palestinian Trade Centre.

The programme will be implemented in close co-operation and full partnership with the Prime Minister's Office, the Ministry of Finance, the Ministry of National Economy and the technical Ministries and other Departments and Agencies of the PA.

Also for the other components of this fiche key partners will be the Ministry of National Economy, the Palestinian Trade Centre, the Palestinian Shippers' Council and SMEs. All the above-mentioned institutions have been consulted in the programming process, in particular but not limited to the formal programming discussions held under the auspices of the Minister of Planning and Administrative Development in January 2010.

All actions foreseen respond to needs expressed by the PA in the PRDP 2008-10 and the programme of the 13<sup>th</sup> Government (the Prime Minister's "two year plan") and, in particular, the PA's statements of its 2010 priorities outlined in its document "Palestine: Moving Forward", which sets the stage for the transition from the PRDP to the Palestinian National Plan 2011-13.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Method of implementation**

With the exception of component 2, the project will be implemented through centralised management. A Financing Agreement will be concluded between the Commission and the Ministry of Finance of the PA.

Component 2, the Palestinian Market Development Fund, will be implemented through Indirect Centralised Management by the signature of a Delegation Agreement with the UK Department for International Development (DfID) in accordance with Article 54(2)(c) of the Financial Regulation 1605/2002 . DfID has the required experience and capacity, having successfully managed, together with the World Bank, a pilot project in this area.

DFID will be fully entrusted and responsible for the implementation of the programme, including procurements of services. DFID will procure an overall independent implementer for the project as well as a separate entity for monitoring and evaluation through competitive tendering process. DFID will be solely responsible for verification and approval of all payments.

##### **4.2. Procurement and grant award procedures**

###### **1) Contracts**

With the exception of component 2, all contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 21(7) of the ENPI Regulation.

###### **2) Specific rules for grants**

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to Contract Procedures for EU External Actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 90%. Full financing may only be applied in accordance with Article 192 of the Financial Regulation if full funding is essential for the action to be carried out.
  - Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 130 of the Financial Regulation.
  - The trade diversification project will be implemented through a direct grant with the Palestinian Trade Centre, given its unique responsibility and capacity in this area and the previously successful activities on developing alternative trade corridors through a direct grant under earlier programmes in accordance with Article 168.1(f) of the Implementing Regulations.
- 3) For that part of the project to be implemented under indirect centralised management the rules and procedures of DfID will apply.

#### **4.3. Budget and calendar**

The maximum contribution to the beneficiaries of this programme is EUR 11 million.

The duration of this programme is estimated at 96 months after signature of the Financing Agreement, including an operational phase of 84 months and a closure phase of 12 months.

The indicative breakdown of the overall budget is as follows:

Component 1 :GERP support	EUR 3.5 million
Component 2:Palestinian Facility for New Market Development	EUR 3.5 million
Component 3 :Trade diversification	EUR 3 million
Audit, evaluation, visibility and TA associated with the programme	EUR 1 million
<b>Total</b>	<b>EUR 11 million</b>

#### 4.4. Performance monitoring

For the PMD a six-monthly monitoring report will be provided showing progress against the purpose and output level indicators in the logical framework. The outputs of the six-monthly reports will be shared with the PA-donor Private Sector Development and Trade Working Group to ensure and demonstrate transparency of the way the facility is being used.

In addition the overall action will be monitored with reference to standard performance indicators in the sectors relevant to the action. An adequate day-to-day project monitoring will be carried out. The projects will be subject to both internal and external result oriented monitoring. The internal monitoring functions will be carried out by the delegation. The external monitoring will be undertaken by external monitors.

Logical frameworks including objectively verifiable indicators will be included in the contracts or contribution agreements for each activity under the programme. In particular, performance of the overall action will be monitored according to the following indicator:

- The number of new products introduced or new market accessed as a result of the project activities by participating firms at the end of the operational implementation period;
- The percentage increase in external trade by participating firms at the end of the operational implementation period;

Palestinian Central Bureau of Statistics data on the percentage increase in diversity of export markets (measured by the reduction of the Gini Coefficient of export concentration) will be reported annually. It is of course difficult to attribute improvements in this data specifically to this action.

#### 4.5. Evaluation and audit

The Commission will organise a general ex-post audit of the programme in accordance with international standards with a view to providing the maximum level of assurance. Contributing donors will be invited to participate. In addition, any contributing donors may carry out ex-post audits of expenditures covered by their payments. Financial experts and qualified auditors will work for PEGASE which will be complemented by international or local experts. Advanced monitoring, control and audit systems are set up for all of PEGASE's activities. All donors participating in PEGASE have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

An external final evaluation, covering all the activities of the action, will also be carried out in accordance with the EU procedures. Where appropriate, external audits of specific projects will be undertaken.

#### 4.6. Communication and visibility

The action will follow the visibility guidelines of the EU [http://ec.europa.eu/europeaid/work/visibility/documents/communication\\_and\\_visibili](http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibili)

[ty manual en.pdf](#) and will be included in the specific PEGASE communication strategy.

Progress of PEGASE implementation will be communicated to all stakeholders, including through the regular bulletin.

Under the action, objective and verifiable information on the additional obstacles and costs imposed on Palestinian businesses by restrictions on access and movement will be systematically gathered. By disseminating this information, the quality of debate will be raised on how to improve Palestinian movement and access.

**Action Fiche for West Bank and Gaza Strip**

**1. IDENTIFICATION**

Title/Number	Support to Private Sector and Capacity Building to institutions related to the Economy CRIS: 2011/23129		
Total cost	EU Contribution: EUR 12,453,227.14( including a contribution of EUR 1,453,277.14 from the Government of Japan)		
Aid method / Method of implementation	Project approach – centralised (direct) management and indirect centralised management through a Delegation Agreement with the UK Department for International Development (DfID) for Component 2 Gaza Private Sector Revitalisation Programme		
DAC-code	33110 32130	Sector Sector	Trade policy and administrative management Small and Medium-Sized Enterprise (SME) development

**2. RATIONALE**

**2.1. Sector context**

The economy of Palestine is currently recording significant economic growth rates, with the overall real GDP growth for 2010 projected by the International Monetary Fund (IMF) at 8%. This growth is driven to a large extent by the significant amounts of aid by the international community. Nevertheless, the economic conditions differ to a large extent between the West Bank and Gaza. The economic revival in the West Bank results from the combination of external financial assistance and the results of the Palestinian Authority's (PA) reform programme. The numerous obstacles imposed on the West Bank economy by Israel are without doubt a major impediment for the private sector to contribute more to economic growth in spite of the relative easing of certain restrictions by the Government of Israel.

Although the private sector has proved remarkably adaptable, the Gazan economy nearly collapsed as a result of the strict blockade imposed by the Government of Israel since Hamas took over in June 2007 and the "Cast Lead" military operation. The estimated 16% GDP growth in the first half of 2010 (compared to the first half of 2009), essentially reflects an expansion from a very low base – in fact, Gaza's output per capita is today only 60% of its 1994 levels. It is too early to say whether the decision of the Government of Israel to ease the blockade has had any material effects.

Growth and investment appear to be increasing mostly in trade/consumer services, as well as in real estate and construction, with only small increases in manufacturing, tourism or agriculture, which are the sectors most affected by restrictions by the Government of Israel.



Growth can only be sustainable if it is driven by the private sector. This will require Israel to ease the restrictions imposed on the Palestinian economy, which preclude private businesses from operating normally, significantly increase their costs, deter them from investing, isolate them from potential markets and disconnect them from basic corporate learning mechanisms. Despite this, there exist a number of areas where the intervention of the PA and/or the donor community can help minimise the constraints to private sector development and increase private investment – these include inter alia: improvements in the business enabling environment; support to the key institutions developing trade, including capacity-building in the field of trade regulation and trade policy. In addition, significant efforts remain to be undertaken to improve access to finance, product quality, develop new products, establish contacts in new markets, increase productivity and reduce costs.

The PA's Ministry of National Economy has made private sector development a priority and has engaged in a donor's consultation to design a far-reaching strategy. Private sector role in overcoming the crisis in Gaza is reflected in its Gaza Early Recovery and Reconstruction Plan (GERRP), with its comprehensive strategy for economic, social and physical reconstruction.

In addition, the PA is seeking observer status in the World Trade Organisation (WTO) General Council and full membership in the near future in order to support development of the Palestinian private sector and its preparations for statehood. Further integration of the PA into the multilateral trade system and ultimate accession to the WTO implies enhanced international Quality Standards and ability to comply with them.

## **2.2. Lessons learnt**

In its last report to the Ad Hoc Liaison Committee (21 September 2010), the World Bank (WB) underlined the key role that the private sector needs to play in the development of the West Bank and Gaza (WBG), and recommends that private sector development be a priority area of intervention.

The EU has a significant experience in the area of private sector development and trade in WBG, notably in the areas of access to finance (i.e. European-Palestinian Credit Guarantee Fund - EPCGF), support to small and medium enterprises (SMEs) (i.e. Facility for New Market Development - FNMD), capacity building for institutions related to the private sector (i.e. assistance to Palestine Standards Institute (PSI) and to the Ministry of National Economy), and trade-related issues (i.e. Trade Diversification Programme). Moreover, the EU has had a key role in the PA's efforts to revive the private sector in Gaza after Operation "Cast Lead" by supporting the aforementioned GERRP's main initiative to date: Private Sector Reconstruction in Gaza (PSRG) programme.

During the implementation of the above PSRG (still ongoing), it became apparent that a number of beneficiaries would not have resumed economic activity if they had not received financial support from the programme. PSRG has acted as a risk-sharing facility that has helped businesses invest in conditions in which they would not invest otherwise. In this context, the EU intends to expand PSRG to other categories of beneficiaries in the Gaza Strip and to establish a programme, which builds on the PSRG experience, to support businesses in the West Bank.

The successful experience of previous and ongoing initiatives confirms that assistance to individual businesses should be strengthened. This is particularly pressing in the Gaza Strip, where the needs of the private sector in all areas are enormous.

With regards to assistance in the Trade area, the continued support to build the institutional capacities of the Ministry of National Economy, with special emphasis on the WTO accession agenda and integration of the Palestinian economy into the Multilateral Trading System, remains a priority for private sector development, as well as in the PA's preparations for statehood. Besides, the positive results of the EU's assistance to the PSI suggest that such support should continue.

### 2.3. Complementary actions

This action is complementary to other projects of the EU supporting the Palestinian Private Sector. The EU supports the PA's PSRG programme with EUR 22,000,000. PSRG is a central element of the PA's efforts to revive the economy in the area and remains the largest initiative of direct support to the Gaza private sector since the conflict. The implementation of PSRG is still ongoing: To date, almost 600 eligible claimants out of a total of 920 have received funds amounting to around EUR 9,600,000. Moreover, the EU committed EUR 3,500,000 in 2010 to the expansion of PSRG to other categories of beneficiaries in the Gaza Strip.

The EU has contributed EUR 14,000,000 to the European-Palestinian Credit Guarantee Fund (EPCGF), which guarantees loans to SMEs through the Palestinian banking system. The EPCGF is co-financed by the EU and *Kreditanstalt für Wiederaufbau* (KfW). Under this mechanism it is envisaged to create a window with specific guarantee conditions for Gaza businesses.

The EU currently supports the private sector through projects included in 2010 committed funds:

- (1) **Trade Diversification Programme**, supports private sector with 3 focus areas:
  1. **Trade Corridors facilitation:** to promote the use of alternative cost-effective trade corridors.
  2. **National Export Strategy (NES):** to support formulation of a NES for 2011 until 2016 and to enhance international competitiveness.
  3. **Trade in Services:** to improve the institutional framework and strengthen Palestinian expertise in trade in services.
- (2) **Fund for New Market Development – Phase II:** increase business capacity to reach new markets and develop their marketing strategies (contribution through a Delegation Agreement with DfID).
- (3) **Support to institutional capacities of the Ministry of National Economy**, with special emphasis on capacity for policy formulation, WTO Accession agenda and integration of the Palestinian Economy into the Multi-lateral

Trading System. Projects presented in this Action Fiche complement actions started with 2010 Funds.

- (4) **Technical Assistance to the PSI** - the modernisation programme for Palestinian Quality Infrastructure will complement the EU current technical assistance (EUR 1,800,000), primarily for the PSI, to be launched in 2011.

A significant amount from the **Instrument for Stability** (IfS) was allocated following the Operation Cast Lead, including EUR 13,000,000 for an Emergency Job Creation Programme. The Gaza Early Recovery and Reconstruction Plan builds on the immediate emergency contribution from the IfS.

The Joint Committee under the Interim Association Agreement adopted an EU-PA European Neighbourhood Policy "Joint Action Plan" in 2004, which includes the promotion of a business enabling environment. The PA is a party to the EU's EuroMed Charter for Enterprise.

United States Agency for International Development (USAID) has a couple of projects providing direct support to enterprises and to the Economic Institutions. The German *Gesellschaft für Internationale Zusammenarbeit* (GIZ) and Canadian International Development Agency have assistance programmes for small and micro enterprise. The Fund for New Market Development helps companies develop comprehensive marketing and product development plans.

#### 2.4. Donor co-ordination

Technical assistance will be co-ordinated with other donors through the Private Sector and Trade Sector Working Groups chaired by Ministry of National Economy and the World Bank. This action may be reinforced with a contribution by the Government of Japan.

The Economic Strategy Group of the EU Heads of Co-operation in Jerusalem and Ramallah has prepared a response strategy to guide the EU reply to the PA's sector strategy for private sector development under the Palestinian National Development Plan 2011-13. The Commission has been designated as the "EU lead donor" in this area. The work in preparing this has mapped the ongoing and planned activities of EU (and non-EU) donors.

### 3. DESCRIPTION

#### 3.1. Objectives

The **overall objective** of the action is to promote sustainable, job-creating economic growth for the West Bank and Gaza Strip.

The **specific objectives** are:

- to provide support to businesses in the West Bank affected by Israel occupation.
- to strengthen capacities at the level of firm and business service providers to promote revitalisation of the private sector in the Gaza Strip.

- to further strengthen the capacities of the Ministry of National Economy and related public institutions to better lead the integration of the Palestinian Economy in the Multilateral Trading System and the WTO Accession Programme.
- to increase competitiveness of Palestinian economy in local and export markets by ensuring manufacturing of products and provision of services of adequate quality in line with the development of standards, their effective implementation and the assessment of conformity of products and services to them.

### 3.2. Expected results and main activities

#### *Component 1: Support to the Private Sector in the West Bank*

The main **expected result** of this component is that those businesses in the West Bank affected by the Israeli occupation that will benefit from this component will be able to resume and/or sustain their economic activities through reconstruction, repair and replacement of damaged capital equipment and/or through support to the businesses' operational needs.

The **main activities** will build on the PSRG programme experience and methodology (ENPI/2009/21839). One or more comprehensive databases of applicants for financial support (hereinafter, the "databases") will be established by the PA on the basis of its own eligibility criteria. If deemed necessary, the EU could provide support to the PA in this process. The EU will: (a) verify the quality of the databases and all individual applications contained in them; (b) establish its own eligibility criteria for financial support; (c) authorise the payments to those applicants that have been deemed eligible according to both PA and EU criteria; and, (d) perform ex-post audits of the payments made, as well as verifications of the use of funds received by applicants.

#### *Component 2 - Gaza Private Sector Revitalisation Programme*

This component aims at supporting the Ministry's of National Economy "Gaza Economic Strategy". It will build on the tools and experience developed during the implementation of the above mentioned FNMD Programme (Phase 1) implemented by DfID and the WB and executed by a local service provider Development Alternatives, Inc. (DAI).

The main **expected results** are: a) businesses' internal capacities strengthened; b) businesses have developed or up-graded their products; c) businesses have reached new markets; d) Business Service Providers and Federations/Unions have developed capacities to provide effective services to their members. The **main activities** to be funded under this component could include, among others, matching grants, technical assistance, training, and market research.

#### *Component 3: Capacity Building for institutions related to the Economy*

- *Sub-component 3.1: Support to the Multi-lateral Trading System (MTS) / WTO Accession Programme - Phase 2*

The main **expected result** is the development of internal expertise and capacities for policies formulation compliant with MTS and WTO requirements within the

Ministry of National Economy and selected related institutions. **Main activities** envisaged are provision of technical assistance and/or equipment.

– *Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure*

The main **expected result** is the strengthened capacities of the PSI with as **main activities** the provision of laboratory equipment and limited refurbishment of testing laboratories (electrical and electronics test laboratory; mechanical, hydraulics and materials laboratory; and construction material laboratory) as well as for metrology laboratories (industrial and legal metrology).

### 3.3. Risks and assumptions

EU's support to WBG is subject to unusual types and high levels of risk: those inherent in the continued Israeli occupation of the West Bank and the ongoing separation between the West Bank and Gaza, violent conflict between Palestinians and Israeli, renewal of violent conflict between Palestinian factions. In addition, all projects requiring the import of goods, equipment and the free movement of service providers are at substantial risk from unpredictable policies by Israel. All actions under this special measure might be hampered by any additional restrictions imposed by the Israeli Government, for example, on the delivery of goods into the Gaza Strip or on financial transactions. A fall in the level of donors financing is also a potential additional risk.

Activities are based on the full co-operation with the PA. For Component 1 in particular, the role of the PA is central in the identification of beneficiaries, of eligible expenditure and timing of payments. For Component 3.2 the successful launch and implementation of the preceding technical assistance activity is essential.

### 3.4. Cross-cutting Issues

Environmental sustainability is a central cross-cutting issue. Palestinian enterprises are typically small, using very old technology. This project can support access to cleaner technologies. They cannot be competitive internationally if they do not conform to international environmental standards. Support to PSI and WTO accession will specifically target issues of necessary standards and certifications. Projects will include an environmental assessment criterion.

Good governance principles and the use of local systems are embedded in the design. The focus on control and audit promotes high standards of public financial management. The Ministry of National Economy will be supported in its development agenda and particular attention will be given to improved public-private sector dialogue and the involvement of women in key positions.

### 3.5. Stakeholders

The direct beneficiaries are businesses in the West Bank affected by Israel occupation, businesses in Gaza, SMEs, the PSI and the Ministry of National Economy and related institutions. All were extensively consulted during the identification of the above interventions. Implementation will be in full partnership

the Ministry of National Economy and other Ministries, Departments and Agencies. The broad representation of stakeholders in the Steering Committees and the transparent management aims at mitigating these risks.

All actions respond to the Palestinian Reform and Development Plan (PRDP) 2008-10 strategy and the programme of the 13th Government (the Prime Minister's "two year plan"), including the "Palestine: Moving Forward" document. Gaza related activities will align to the PA Gaza Economic Strategy.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Method of implementation**

A Financing Agreement will be concluded between the European Union represented by the Commission and the relevant authority of the PA.

##### ***Component 1: Support to the Private Sector in the West Bank***

Direct centralised mode will be applied to this component. Financial support to eligible applicants under this component will be delivered through the mechanisms developed under the ongoing PSRG programme (ENPI/2009/21839).

##### ***Component 2 - Gaza Private Sector Revitalisation Programme***

In view of the ongoing volatile situation in Gaza and the previous experience gained by the FNMD project implemented by DfID and the World Bank, the preferred management mode for this component is:

- Indirect Centralised Management through the signature of a Delegation Agreement with DfID in accordance with Article 54(2)(c) of the Financial Regulation 1605/2002.
- The agreement will include a Gaza specific window in the EU - DFID programme work plan.

DfID will be fully entrusted and responsible for the implementation of the programme, including procurements of services. DfID will procure an overall independent implementer for the project as well as a separate entity for monitoring and evaluation through competitive tendering process. DFID will be solely responsible for verification and approval of all payments.

The contractual model that will be used is a standard Delegation Agreement.

##### ***Component 3: Capacity Building for institutions related to the Economy***

- ***Sub-component 3.1: Support to the MTS / WTO Accession Programme - Phase 2***

Direct centralised management for the WTO support programme through service and/or supply contracts.

– *Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure*

The direct centralised management mode will be used through supply and grant contracts.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegated body under, respectively, decentralised, joint or indirect centralised management.

#### **4.2. Procurement and grant award procedures**

##### 1) Contracts

With the exception of component 2, all contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by Regulation (EC) No 1638/2006. Further extensions of this participation to other natural or legal persons by the relevant authorising officer shall be subject to the conditions provided for in Article 21(7) of the above mentioned Regulation.

##### 2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to Contract Procedures for EU External Actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget of the European Union. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 90% of the total accepted costs of the Action. Full financing may only be applied in accordance with Article 192 of the Financial Regulation if full funding is essential for the action to be carried out.

3) For that part of the project to be implemented under indirect centralised management the rules and procedures of DfID will apply.

#### **4.3. Indicative budget and calendar**

The duration of this programme is estimated at 84 months after signature of the Financing Agreement, including an operational phase of 72 months and a closure phase of 12 months.

The indicative breakdown of the overall budget is as follows:

<b>Component</b>	<b>Method of Implementation / Type of contract</b>	<b>Amount (EUR)</b>
Component 1 - Support to the Private Sector in the West Bank	Direct centralised management	5,000,000
Component 2 - Gaza Private Sector Revitalisation Programme	Indirect Centralised Management through a Delegation Agreement with DfID.	2,000,000
Component 3- Capacity Building to institutions related to the Economy		
Subcomponent 3.1: Support to the MTS / WTO Accession Programme - Phase 2	Direct centralised management Mainly Service and supply contracts	1,000,000
Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure	Direct centralised management. Mainly Supply and grant contracts	2,700,000
Audit, evaluation, visibility and TA associated with the programme	Direct centralised management Service contracts	150,000
Contingencies		150,000
<b>TOTAL</b>		<b>11,000,000</b>

#### **4.4. Performance monitoring**

The projects will be subject to both internal and external result oriented monitoring.

For Component 1, comprehensive monitoring, verification, control and audit (including ex-ante verifications) systems of the use of EU funds and the effectiveness of the support will be established. A uniform financial reporting system will provide detailed information on operations. Taking into account the characteristics of the sector, the geographical location, the payment system used and donors' requests, specific adapted ex-ante, real-time and ex-post monitoring control and audit procedures will be established.

For Components 2 and 3, six-monthly monitoring report will show progress against indicators in the logical frameworks be included in each contract.



**4.5. Evaluation and audit**

An external final evaluation, covering all the activities of the action, will be carried out in accordance with European Commission procedures. Where appropriate, external audits of specific projects will be undertaken.

**4.6. Communication and visibility**

The action will follow the visibility guidelines of the European Commission.