

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

**1. IDENTIFICATION**

Title/Number	PEGASE INFRASTRUCTURE FACILITY 2010		
Total cost	€ 21 million		
Aid method / Method of implementation	Project approach <i>-Partial decentralisation with specific exceptions set out in part 4.1</i>		
DAC-code	73010	Sector	Reconstruction, Relief and Rehabilitation

**2. RATIONALE**

**2.1. Sector context**

After years of conflict and economic stagnation public infrastructure networks and systems do not offer full coverage. They are poor in quality and often unaffordable for the most vulnerable groups of the population. They are also inadequate to ensure the necessary infrastructures required for building public and private services within the process of Palestinian state building. Accordingly, substantial investment in public infrastructure is required as highlighted in the Palestinian Reform and Development Plan (PRDP). The PRDP has committed to the building up of the Governance Institutions in the West Bank and Gaza (WBG), for which the EU is supporting the rule of law (security and justice sectors) and public finance management (PFM). Also, the EU supports PRDP public infrastructure development, social protection reform, East Jerusalem and vocational education, the latter being an exit sector for the EU-cooperation.

Palestinian Prime Minister Fayyad's state building plan, presented in August 2009, reflects the Palestinian Authority's ambition to prepare the institutions for their future roles. All sectors are in need of appropriate infrastructural support, ranging from physical built-infrastructure to supplies and equipment, in line with the objectives set out in the PRDP on sector level, as well as the current, further PA policy developments.

**2.2. Lessons learnt**

Support to public infrastructure has been provided since 2005 through three consecutive financial facilities (2005 Infrastructure Facility, 2008 and 2009 PEGASE Public Infrastructure) that aimed to supporting service provision and infrastructure financing at both national and local levels. Within the prevailing political and security situation, the flexibility of the approach has proven to be a key element of success which has high impact and relevance for the implementation of the PA's state building plan. Given that Israeli restrictions in Gaza, and to a much lesser extent in the West Bank, are determinant factors for project feasibility, it is important to be

able to reallocate resources to other projects in the pipeline when obstacles arise. In parallel with the defining appropriate sector policies and strategies, donors are requested to provide direct, tangible and visible interventions in these sectors. At the same time, the focus of the cooperation should be progressively aimed to serve mid-term and longer-term policy objectives, allowing for increasingly comprehensive planning and programme implementation of (infrastructure / supply) interventions.

The lessons learned for previous Infrastructure Facilities can be summarised thus:

- (1) **Clearly articulated scope of actions:** items/activities in terms of reference which are vaguely worded at the outset tend to remain vague throughout the project, despite discussions and analysis undertaken during implementation.
- (2) **Clear logical frameworks are an essential component of the terms of reference** with objectively verifiable indicators.
- (3) **Timely decisions by the beneficiaries are needed:** during project implementation there can be long delays in obtaining approval, especially for bidding documents preparation or contracts, sometimes causing other activities to be put on hold or not delivered due to lack of time. Projects should start with a realistic assessment of political willingness to benefit from individual activities.
- (4) **Regular update meetings with the beneficiaries at senior level:** we have found that the ministerial level, as the ultimate responsible for instigating change, is instrumental in ensuring projects meet their objectives. It is advisable to programme more regular update sessions with the relevant ministers for future assignments, and could be included as a requirement in terms of reference.
- (5) **Access to Gaza:** should work need to be conducted in Gaza, assistance from the Commission in obtaining Israeli permits for importing materials or technical cooperation staff will be essential.

### 2.3. Complementary actions

The EU's contribution in Governance (security, justice and PFM) is €46.29 million, from an overall donor funding of €172.6 million, broken down into:

- (1) The security sector's overall objective is to provide safety, security and basic human rights of the citizens of the occupied Palestinian territory (oPt), for which the overall European Commission portfolio in 2009 is €32.34 million in (including buildings, transportation, prisons). The total portfolio (2009) of all donors is estimated at €130.3 million. The United Kingdom is the lead donor in the security sector.
- (2) The overall objective in the justice sector is an independent and efficient civilian judicial institution, delivering justice for all Palestinians. The overall European Commission portfolio (2009) is €5.8 million (including buildings, equipments), with a total 2009 portfolio €28.9 million. The Netherlands is the lead donor in the justice sector.

- (3) To improve the transparency, effectiveness, efficiency and accountability of the PA's Public Financial Management is the overall objective of the PFM-sector. Overall EU funding for 2009 is €8.15 million. The EU is also the lead donor in this sector, which has estimated overall funding (2009) including others donors of €13.4 million.

In the Public Infrastructure Sector, which comprises the water/waste water, solid waste management and electricity sector, the EU-funded portfolio for 2009 reached €44.68 million (Water: €21.04 million, Solid Waste: €12.73 million, Electricity €19.91 million). The overall donor portfolio for 2009 reaches €341.7 million, with Germany as lead donor in the water sector, the EU as provisional lead donor in electricity (exit sector) and Denmark/Germany as lead donors in the Solid Waste Management sector.

Finally this action fiche and the action described the action fiche *EU support for the PA Two-Year Plan for Statehood* obviously complement each other one is providing the Capacity Building for enhancing Palestinian Administration performance in several sectors and this action fiche is providing the necessary investments and means (buildings, equipments, etc) to support the construction of Palestinian State Building Plan.

#### **2.4. Donor coordination**

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 forums 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 forums for co-ordination and alignment of donor activities for the active stakeholders in each sector. More specifically, enhanced and targeted technical assistance will be coordinated through various working groups as Fiscal, Security, Judiciary, Social Protection and Water. The European Commission, as previously mentioned, as well as individual EU Member States plays a leading role in these forums. In addition EU policy is coordinated through regular meetings of the EU Heads of Cooperation.

The Commission's programme is closely coordinated with all key donors active in the oPt. In particular, the Commission's ongoing governance programmes received strong support from the IFIs in their reports to the Madrid AHLC. In addition, the World Bank's report to the AHLC fully endorsed the Commission's intention to support social safety net reform and the reform of the energy sector under its proposed activities in 2010. The report to the previous AHLC (New York, 2009) provided a strong endorsement for the intended targeting of judicial reform.

### **3. DESCRIPTION**

#### **3.1. Objectives**

*Overall objectives and purpose (specific objective) of EU support.*

The overall objective of the action is to build the institutions of the future Palestinian state, in line with the Quartet's call in March 2010 for bilateral Israeli-Palestinian negotiations to resolve all final status issues, leading to a settlement within 24 months, that ends the occupation which began in 1967 and results in the emergence of an independent, democratic, and viable Palestinian state living side by side in peace and security with Israel and its other neighbours by providing the necessary physical and IT infrastructure, as well as complementary equipment.

The specific objectives are:

- To improve services related to maintaining law and order, promoting equality of right through and efficient Judiciary system and Social protection system has improved through the provision of physical facilities;
- To improve accountability, efficiency and transparency of the public financing and banking regulation have been improved through the provision of materials and equipment enhancing flows and management of information;
- To improve public Infrastructure networks related to access to water and sanitation, energy and other public infrastructure;
- To provide the construction and equipment of Judiciary Court Houses and training facilities.

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

#### *3.2(a) State building – Governance*

Results:

- Law and order in the oPt is maintained and the safety of citizens is effectively addressed;
- The Palestinian justice sector has a clear division of responsibilities and separation of powers, ensuring fair trials within reasonable time for all Palestinians.

Activities

- Construction and equipment of Judiciary Court Houses and training facilities;
- Construction and equipment of Civil Police facilities;
- Supply to Ministry of Social Affairs in IT an related equipment.

#### *3.2(b) State building – Economic and Financial*

Results:

- Revenue collection is improved;
- The capacity of institutions responsible for management of commercial borders (PA Customs, CBA) is improved;

- Revenue collection and banking regulation are improved.

Activities:

- Building and equipment for financial institutions
- Building and equipment of institution supporting the Private Sector development

### *3.2(c) State building – Basic services reinforcement*

Results:

- The number of farms practising irrigation through rain-harvested water has increased;
- The percentage of the treated effluent in West Bank and Gaza has increased;
- The basic services production and distribution networks such Electricity and Water are strengthened

Activities:

- Construction of Rain-Fed Cisterns for Farmers practising supplementary irrigation of Olive or Almond orchards;
- Rehabilitation and construction of the sanitation collection system in the Gaza strip municipalities;
- Construction of Waste- Water Treatment Plant;
- Connection of villages currently unconnected to the Water network;
- A possible contribution to a programme for the construction of new electricity substations in the West Bank (dependent upon other parallel donor financing and contractual arrangements).

Additional activities could be also defined in co-ordination between the Palestinian Authority and the Commission, depending on the feasibility of investment specifically in Gaza. Finally we should insist on the fact that all actions will complement the EU's ongoing support for improving the governance and service delivery capacity of the PA, leading to further progress in the PA's governance and reform framework based on the PRDP/PNP process and facilitated through the LDF forum, its Strategy and Sector Working Groups.

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 in the Head Office and if necessary by the Commission, by means of concluding a rider to the Financing Agreement between the European Commission and the Palestinian Authority 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 PRAG.

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

The pursuit of the EU's strategy in the occupied Palestinian territory is subject to unusual and unusually high levels of risk. The most notable risks include: failure to end the occupation of the West Bank; failure to end the siege on Gaza; failure to achieve reconciliation between the Palestinian factions; failure of Hamas to accept the Quartet principles; 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.

In the past, the EU has managed to deliver sustained and high levels of assistance in the face of all of the risks described above. However, it cannot reasonably be denied that the effectiveness of this assistance has been severely limited, both in terms of the socio-economic impact that such high per capita levels of assistance might have been expected to achieve and in terms of the achievement of the EU's broader objectives.

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. Since mid-2007, the PA has pursued an unusually robust reform programme which it seeks to embed and further pursue through the adoption of the Palestinian National Plan. However, any successor to the current 13<sup>th</sup> Government may be less committed to the reform agenda. In an already fragile economic situation, pressures to increase public expenditure, whether in the security or civilian sectors, would have a significant negative impact on fiscal sustainability and on the Government's current commitment to reduce its dependence on donor financing. This risk can be mitigated only through a determined effort on the part of the entire donor community to hold any new Government to the reform agenda of its predecessor.

The impact of the global financial crisis of 2008-2009 on the Palestinian economy was rather limited, and was certainly less important than other factors such as the growth in the West Bank resulting from the fiscal stimulus of 2007-2008 on the one hand, and the lost growth due to Operation Cast Lead and the continued blockade on Gaza on the other. However, given the still-high level of dependence of the Palestinian economy on donor financing and the likely constraints on donors' assistance budgets as they seek to reduce their own deficits during the lifetime of this strategy, insufficient donor financing remains a risk. In addition, the risk remains high that donors will not allocate resources in line with PA priorities. The development of the EU's development programme for the PA in 2010, in line with PA priorities, is, in itself, an important means of mitigating this risk.

The action intended in this fiche have been envisaged taking into consideration the specific situation of Gaza, thus we assume a limited accessibility for Goods and personal and the continuation of the present political crisis hindering any possible coordination as the PA is not represented.

The relatively low capacity for defining and applying Sector Strategies, translating them into master plans and work plans by line Ministries puts at risk the project

implementation relevance and feasibility. The Ministry of Finance should be able to ensure the necessary ownership from beneficiary and also prioritised these actions and to assure the project cycle in order to assure reliability, the predictability of the actions intended.

Finally the moderate absorption capacity of the Ministry of Public Works and Housing in term of instruction/implementation/supervision of projects could also delay and impact negatively on the timing and possibly on the quality of intended projects.

### **3.4. Crosscutting Issues**

Environmental sustainability is a central cross-cutting issue. The PA lacks control over most aspects of the environment (for instance, 60% of the land in the West Bank is designated as Area C and is therefore under full Israeli administrative control, while the situation in Gaza remains a key concern, with little ability for the PA or donors to address ongoing environmental degradation due to the current Israeli closure policies on the Gaza Strip). Without political progress the actions under this fiche will therefore have limited impact on improving the environmental situation of the occupied Palestinian territory. Nevertheless environmental sustainability will be taken into consideration as the projects will address problems related to water waste water and energy. On infrastructure projects, environmental impact assessment of projects will be performed where necessary within feasibility studies. Good-governance principles will guide the implementation mechanisms and are particularly focused by the main interventions in the security, justice and PFM components.

Improved flow and management of information will contribute to greater transparency, efficiency thus enhancing good governance.

Gender equality will be mainstreamed into the governance sector through the planned establishment of the Governance Department within the Ministry of Planning and Administrative Development (MoPAD). Terms of reference for this department have been drawn up with the support provided to the Ministry by the EC-financed Governance Strategy Group Coordinator, including for a gender advisor in the department to provide support on integrating the cross-cutting issue of gender equality into concrete policy planning in support of gender-related objectives. Finally all building to be built under this infrastructure facility will take on board gender requirements and specific needs related to public offices and Facilities.

### **3.5. Stakeholders**

The final beneficiary of the action will be the Palestinian population. Key partners will be the Prime Minister's Office, the Ministry of Finance as well as the Ministry of Planning and Administrative Development through its co-ordination role. All the above-mentioned institutions have been consulted in the programming process to ensure good ownership of the PA institutions but also to verify the capacity for the implementation and to ensure the adequacy of the intended action within the present and the future PRDP. Discussions concerning in particular but not limited to the formal programming, were 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.

More specifically by sectors:

The stakeholders in the security sector are the Ministry of Interior (MoI), the Palestinian Civil Police (PCP), the Civil Defence (CD), the administration of the prisons (GARCC) and EUPOL COPPS.

In the justice sector the main stakeholders are the Ministry of Justice, the Palestinian Judicial Institute, the High Judicial Council, and the Bar Association.

In the PFM, the stakeholders are the Ministry of Finance, the Palestinian Monetary Authority, the State Audit and Administrative Control Bureau, and the Prime Minister Office and other relevant stakeholders.

In the public infrastructure sector, the stakeholders are the Palestinian Water Authority (PWA), the Palestinian Energy Authority (PEA), the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Social Affairs, the Ministry of Agriculture, municipalities, NGOs in the water/waste water sector and other relevant public/governmental and international organisations.

The institutional capacity of these organisations is mixed – higher in those where the Commission has had longstanding support (such as the Ministries of Finance, Planning, Social Affairs), and weaker in those which have been less of a focus in recent years. In the latter case, these institutional weaknesses will be addressed through the various activities as mentioned in the complementary action fiche "*EU support for the PA Two-Year Plan for Statehood*".

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

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

A Financing Agreement will be concluded between the Commission and the Ministry of Finance of the PA governing all components.

Partial decentralised management mode will be used. On the component " sanitation and waste of water in Gaza, a final decision to be taken with other donors will be made to decide if we will work on the basis of **Indirect Centralised Management** with a Delegation Agreement with KfW and/or on the basis of **joint management** through the signature of an agreement with the UNDP.. There are two potential projects for which donor support is sought by the PA. The decision of which one to support will be made, not only on the basis of the needs expressed by the PA, but also on the operational feasibility of each option.

The Commission controls ex ante all the procurement and grant procedures.



The European Commission will be the contracting authority for technical assistance contracted via the Framework Contract if applicable as well as for evaluation, and audit contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

<b>Works</b>	<b>Supplies</b>	<b>Services</b>	<b>Grants</b>
< 300,000 EUR	< 150,000 EUR	< 200,000 EUR	≤ 100,000 EUR

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

##### 1) Contracts

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 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.

- Financing in full: the maximum possible rate of co-financing for grants is 90% Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.
- 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 112 of the Financial Regulation applicable to the general budget.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme

estimates in question (i.e. the Practical Guide to procedures for programme estimates).

For Contribution Agreements with International Organisations, all agreements implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the International Organisation concerned.

### 4.3. Budget and calendar

The indicative breakdown of the overall budget is as follows

Works and supply contracts split into :	<b>€19 million</b>
1. Good governance / Security / Basic Public Infrastructure (decentralised ex ante)	<b>€15.5 million</b>
2. Sanitation and Waste Water in Gaza	<b>€3.5 million</b>
Service contracts for the supervision of work (decentralised ex ante)	<b>1.5 million</b>
Audit and evaluation contracts (centralised direct)	<b>0.5 million</b>
<b>Total</b>	<b>€21 million</b>

The budget of the action, which is 100% financed by the Commission, includes (on an indicative basis):

The execution of the project will last 72 months (6 years) from the European Commission's Signature of the Financing Agreement. The implementation operational phase will last 48 months and the closure phase 24 months.

### 4.4. Performance Monitoring

The action will be monitored with reference to standard performance indicators relevant to the action where these exist. 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 ECTAO. The external monitoring will be undertaken by external monitors contracted by the Commission (Europe-Aid Cooperation Office).

EuropeAid Standard Indicators have not been developed for the activity areas targeted. Logical frameworks including objectively verifiable indicators will be included in the contracts or contribution agreements for each activity under the programme, in line with the lessons learned (above).

In particular, performance of the overall action will be monitored according to the following indicators:

SECTOR	INDICATORS
<b>JUSTICE</b>	<p><i>The efficiency of the court system is improved, in particular through a reduction of the case backlog</i></p> <p><i>Delay ( in days) between application for a Judicial Case and its judgement</i></p>
<b>SECURITY AND RULE OF LAW</b>	<p><i>Percentage of the prisoners accommodated in prison facilities respecting the international standards.</i></p> <p><i>Number of prisoners divided by the numbers of theoretical facilities space available for prisoners.</i></p> <p><i>The Palestinian Civil Defence has the capacity to fulfil its mission</i></p>
<b>WATER</b>	<p><i>Numbers of Additional Cubic meters of effluent collected and treated in Gaza</i></p> <p><i>Number of cubic meters collected through Rain-harvesting Cisterns</i></p> <p><i>Number of Hectares of olive trees irrigated by Rain-Fed Cisterns</i></p>
<b>PUBLIC FINANCE MANAGEMENT</b>	<p><i>Palestine Monetary Authority operates a management information system conforming to international standards.</i></p> <p><i>Public expenditure management is enhanced and the PA fulfils its mid-term targets for commitment controls, reduction in net lending, and increase in domestic revenue</i></p>
<b>PRIVATE SECTOR DEVELOPMENT</b>	<p><i>Number of product certificates issued.</i></p> <p><i>Reduction of non-conforming goods on the Palestinian market.</i></p>
<b>SOCIAL PROTECTION</b>	<p><i>Ministry of Social Affairs plans, develops and implements relevant, sustainable and cost-effective social protection services with an improved focus on the poor.</i></p>

#### 4.5. Evaluation and audit

An external mid-term evaluation and an external final evaluation of the action will be performed.

An external final audit, 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 Commission and will be included in the specific PEGASE communication strategy. [http://ec.europa.eu/europeaid/work/visibility/documents/communication\\_and\\_visibility\\_manual\\_en.pdf](http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf)