

Annex III
Action Fiche for West Bank and Gaza Strip

1. IDENTIFICATION

Title/Number	PEGASE: Private Sector Development		
Total cost	€11 million Joint co-financing (UK) and parallel co-financing (World Bank) for the Palestinian New Market Development Facility		
Aid method / Method of implementation	Project approach – centralised management With the exception of the Palestinian New market Development Facility to be implemented through joint management (World Bank)		
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 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 Palestinian Authority (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 Palestinian Authority'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 €22m 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 PRSG has proved quite a lengthy process. On the other hand, the 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 ongoing 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 New Market Development Fund (PNMDF) builds on an existing scheme. 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. Through PEGASE, the EU has contributed €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 KfW. Also through PEGASE, the EU has also contributed €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 €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 IAA 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 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 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 coordination in the global field of economic development

More specifically, enhanced and targeted technical assistance will be coordinated 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 ongoing and planned activities of EU (and non-EU) donors. Germany, the World Bank and US have ongoing 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 ongoing 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 Palestinian Authority.

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;
- 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

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.

Palestinian Facility for New Market Development (specific objective 2)

There are three key expected results. First, a businesses plan is drafted and investments are made to implement projects to diversify trade and use services to enhance business potential. Secondly, associations and consortia have developed stronger partnerships with, and have delivered services to, developing businesses. Thirdly, the facility has received high demand, has provided quality support and has generated evidence on constraints to trade performance.

To achieve this, the project includes three sets of activities:

- a ‘Fund for Firm Competitiveness’ that provides grants through a transparent application process to small enterprises. Grants would be for up to 50% of the cost of investments in activities that enhance the competitiveness of the enterprise or promote employment;
- a Fund to provide grants of up to 70% to business associations and consortia of firms, associations and other organisations to implement strategies to strengthen the export potential of business sectors; and
- an Impact Assessment Unit (IAU) which will gather information on business obstacles with a focus on movement and access issues.

This project is deliberately targeting businesses that have identified opportunities by which to expand. As such, it will be demand led. This may run the risk of low demand for grants from Gaza, should the current closure to commercial trade persist. To address this risk, an implementing agency will be chosen that has full access to the Gaza Strip and the project will be advertised equally and equitably between the two parts of the oPt.

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 sectoral 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 in DG AIDCO and if necessary by the Commission, by means of concluding a rider to the Financing Agreement between the European Union 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 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 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.

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 component.

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 cooperation 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 13th 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

A Financing Agreement on the centralised management following standard model in force will be concluded between the Commission and the Ministry of Finance of the PA.

The component 2, the Palestinian New Market Development Fund, will be implemented through joint management by the signature of an agreement with an

international organisation. The organisation will be the World Bank given its experience and capacity in this area, its success in managing, together with DFID, a pilot fund, and its higher management capacity in the field.

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 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 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 Union.
- 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.
- The trade diversification component 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.
- All contracts 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 maximum contribution to the beneficiaries of this programme is €11 million.

The duration of this programme is estimated at 72 months after signature of the Financing Agreement, including an operational phase of 48 months and a closure phase of 24 months.

The indicative breakdown of the overall budget is as follows:

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

4.4. Performance monitoring

For the PN MDF 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 contracted by the 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 particular, performance of the overall action will be monitored according to the following indicators:

- The percentage increase in investment by participating firms at the end of the operational implementation period;
- The number of new products introduced 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_visibility_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 this component will raise the quality of debate informing decisions on how to improve Palestinian movement and access.