

ANNEX I

ACTION FICHE FOR THE OCCUPIED PALESTINIAN TERRITORY

1. IDENTIFICATION

Title/Number	PEGASE: Support to Recurrent Expenditures of the PA (part II)		
Total cost	EUR €39 million maximum		
Aid method / Method of implementation	Project approach – direct centralised management		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE

2.1. Sector context

PEGASE provides direct financial support for the Palestinian Reform and Development Plan (PRDP) and is helping to sustain the Palestinian Authority's (PA) efforts in the four PRDP key sectors of governance, social development, economic and private sector development and public infrastructure.

The PRDP, presented by the Palestinian Authority for a three-year term (2008-2010), received an unprecedented level of external support in 2008, although the funds pledged for direct financial support are not sufficient to cover completely the PA's financial gap foreseen for 2008-2010.

The funds provided in 2008 under PEGASE from the EC budget for recurrent expenditures (EUR 258 million) were complemented with funds from EU Member States (EUR 127.27 million to PEGASE Direct Financial Support). For 2009, Luxembourg has already contributed with EUR 0.1 million. At the information meeting for Member States on the cooperation with PA in 28th May 2009, firm pledges of €25 million each from Germany and Spain were received together with €5 million from Sweden and €1 million from Ireland (n.b. these pledges refer only to support for PEGASE and not to the Member States' concerned total support for oPt). There are also indications from a number of other Member States that they intend to contribute with direct financial support, without formally committing themselves at this juncture. Contacts with other non-EU donors are also being undertaken.

Other donors are also providing support for direct financial assistance through non-PEGASE channels, including directly to the PA budget or via the World Bank Trust Fund. In 2008, globally these funds amounted to over USD 1,1 billion (EUR 0.81 billion). For the first 4 months of 2009, the PA has received USD140 million only, from non-EU sources, with its overall needs amounting to more or less the same figure as in 2008.

Important efforts have been made by Commissioner Ferrero-Waldner to encourage other donors to deliver on their Paris pledges and to reallocate funds towards direct financial support, the highest priority of the PA.

2.2. Lessons learnt

Actions under PEGASE build upon the successful experience of the Temporary International Mechanism in 2006 and 2007. PEGASE is implemented in full co-ordination with Palestinian partners and in full co-operation and transparency with EU Member States, the European Parliament and other donors.

The final evaluation and audit of TIM have been completed and the results have been shared with Member States, the European Parliament and other stakeholders. The main conclusions of the evaluation stated that TIM has been an innovative instrument, capable, in a difficult and complicated environment, to quickly mobilise resources from donors and to target them efficiently at the neediest. At the same time high standards of transparency and accountability were ensured through rigorous fiduciary, control and verification procedures. The results have fed into the implementation of PEGASE.

2.3. Complementary actions

Support to direct financial support has also been provided by other donors either through PEGASE, directly to the Palestinian Authority or via the World Bank. At the Paris donor conference in December 2007 donors made pledges in support of the PRDP. Most donors are fulfilling their pledges. So far, the Palestinian Authority has received, in 2009, commitments for over USD 1.15 billion (EUR 0.866 billion) in external budget support, out of which USD 302 million (EUR 227 million) have already been disbursed.

During the Sharm el-Sheikh donor conference in support of the Palestinian economy for the reconstruction of Gaza, pledges made amounted USD 4.7 billion (EUR 3.5 billion).

In 2008 an amount of EUR 382 million of EU funding under ENPI was made available for the occupied Palestinian territory. Most of the funds (EUR 258 million) were allocated for direct financial support under PEGASE recurrent expenditure, infrastructure projects (EUR 37 million) and Institution Building projects (EUR 14 million) in support of PRDP programmes, while the remaining amount was allocated to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) (EUR 71 million) and East Jerusalem initiatives (EUR 2 million).

So far in 2009, EUR 351.08 million has already been committed for the benefit of the Palestinian population. Part of this was humanitarian aid for the Gaza conflict (EUR 61 million) or within the Food Facility instrument (EUR 39.70 million). Under the ENPI budget, EUR 235 million has been committed in support of UNRWA (EUR 67 million) and for PEGASE Support to recurrent expenditure (EUR 168 million). A further €14.48 million has been mobilised from the Food Security budget line, of which €5 million has been allocated to UNRWA with a further €9.48 million being made available to NGOs via a call for proposals for water sanitation. Support to civil society is being provided from the European Instrument for Human Rights

and Democracy (€0.9 million) and the budget line for Non-State Actors in Development (€2.4 million).

Local donor co-ordination has been streamlined in accordance with the conclusions of the AHLC meeting held 14 December 2005 in London following a proposal by the Commission, the World Bank and Norway to reform the Aid Management Structures. The Commission continues to play a leading role in these structures at all levels, as well as in local EU MS co-ordination. Complementarity and coordination with other EC actions are assured through regular coordination meetings at Headquarters and daily contacts between ECHO and RELEX/AIDCO staff working in the ECTAO in East Jerusalem. The PA made known to potential donors at the Sharm-el-Sheik Conference in March 2009, that PEGASE was its preferred delivery mechanism for channelling funds.

3. DESCRIPTION

3.1. Objectives

The objective of this action to be implemented through PEGASE is to support the Palestinian Reform and Development Agenda by helping the PA to:

- financing its budget deficit and implementing its public finance reform;
- meeting its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society;
- maintaining the functioning of the administration and the provision of essential public services to the population;

3.2. Expected results and main activities

Three categories of public expenditure are in principle eligible for support under this action, for a total amount of EUR 39 million:

Component 1: Supporting Palestinian administration and services

PEGASE will make available a regular contribution to the payment of salaries and pensions to the PA civil servants in the West Bank and the Gaza strip. The objective of this activity is to help the PA meet its financial obligations towards civil employees and pensioners. The regular contribution to the funding of the wages expenditure for civil servants reinforces the PA's public finance management and public finance reform implementation. At the same time, it allows the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza.

Component 2: Supporting the Palestinian social protection system

PEGASE will make available at regular intervals direct financial support to vulnerable families in the West Bank and the Gaza strip. The objective of this activity is to ensure the continued assistance to poor and vulnerable Palestinian families dependent on financial aid from the PA. This activity reinforces the reform

of the social protection system and improves PA public finances by reducing pressure on the budget by reducing expenditure through the coverage of allowances due to the beneficiaries of the Ministry of Social Affairs' (MoSA) cash support programme.

Component 3: Supporting the provision of essential public services

The objective of this activity is to help the Palestinian Authority ensure the continued provision of essential public services for the benefit of ordinary Palestinians. In particular, the fuel deliveries to the Gaza Power Generating Company (GPGC) will be funded under this component. This ensures the continued provision of electricity to households, schools, hospitals and public services in the area. The reimbursement of the costs of other public services, for example, health referral costs, is also foreseen.

3.3. Risks and assumptions

Variations in the price of fuel and fluctuations in the exchange rate may have an impact on funding that donors can provide.

It is expected that contributions from Member States and other donors will be made available during the implementation period to complement the proposed funds.

The above-mentioned operations are based on full co-operation with the Palestinian Authority. This co-operation needs to be maintained, in particular for the identification of eligible beneficiaries and timing of payments and for the identification of eligible expenditure.

All actions under this special measure require that no additional restrictions are imposed by the Israeli Government, for example on the delivery of fuel into the Gaza Strip, or on financial transactions, including transfer of funds between the West Bank and Gaza.

If the Agreement on Movement and Access is implemented following negotiations post-Annapolis, PEGASE can be a powerful instrument at the disposal of the PA government, of Europe and of the International Community, to mobilise resources thus contributing to the successful recovery of the Palestinian economy and the construction of a viable Palestinian State based on peaceful co-existence and prosperity.

3.4. Cross-cutting Issues

Good governance principles are applied to the implementation mechanism.

3.5. Stakeholders

The direct beneficiary of the action is the Palestinian population.

Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the European Commission and based upon requests and information provided by the Palestinian Authority.

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

PEGASE will be co-ordinated locally with the EU Member States, other international donors and International Organisations. In order to do so, full use will be made of the existing local co-ordination groups already in place in liaison with the PA administration and the Office of the Quartet Special Representative like the Local Development Forum, the AHLC structures, the co-ordination meeting between Member States and the EC Delegation etc.

All donors supporting the mechanism will also be key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

This project will be financed under a financing agreement signed with the PA Ministry of Finance. Direct centralised management will be applied for all components.

PEGASE will be implemented by the Commission through the EC Representation Office in East Jerusalem, in close co-ordination with Member States officials and with the Palestinian Authority.

Disbursements will be made by the Commission either directly to the benefit of Palestinian Authority suppliers or to the Palestinian Authority following eligibility checks and verification and control procedures by external experts and international audit firms. These modalities have already been implemented through the earlier TIM mechanism.

4.2. Procurement and grant award procedures

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 1638/2006.

The West Bank and the Gaza Strip are territories facing a crisis, as defined in Article 168(2) of the Implementing Rules of the Financial Regulation. As a result negotiated contracting procedures or direct award for grant contracts may be used in accordance with applicable provisions.

4.3. Budget and calendar

The maximum contribution to PEGASE – Support to Recurrent Expenditures under this decision is EUR 39 million. The contribution is indicatively distributed as follows:

Component 1: Supporting Palestinian administration and services (EUR 39 million)

Component 2: Supporting the Palestinian social protection system (EUR 0 million)

Component 3: Supporting the provision of essential public services (EUR 0 million)

All allocations are indicative and may be changed depending on the needs expressed by the PA and the funds received from other donors for specific areas covered by PEGASE. Therefore, should needs arise during the implementation period of this action, funds might be also utilised for Component 2 (Supporting the Palestinian social protection system) and Component 3 (Supporting the provision of essential public services) as described in and according with the provisions of Commission decision C(2008)8267 of 17/12/2008.

This estimate assumes that other donors will make considerable contributions to each of the components.

PEGASE runs for a 3 year period in line with the PRDP, covering the financial years of 2008, 2009 and 2010. The period of implementation of the current action is 24 months. The funds under this decision are expected to be disbursed in 2009.

Funds for the necessary technical assistance, evaluation, audit and visibility actions have already been made available under previous Commission decisions.

4.4. Performance monitoring

PEGASE will continue to implement a comprehensive monitoring, verification and control system to provide reassurance over the use of their funds, and the efficient and effective provision of support to the Palestinian administration and population while fully protecting donor interests.

Monitoring arrangements also include reviews to take stock of other donor contributions, reviews by the World Bank on reform progress, reviews by the IMF on budget execution as well as other relevant political developments.

Payments will be executed in accordance with EC regulations. A sophisticated and uniform financial reporting system is in place and will continue to be implemented, giving detailed information on all operations processed. Individual beneficiaries as well as businesses will be uniformly checked against international sanctions lists.

4.5. Evaluation and audit

Financial experts and qualified auditors will work for PEGASE which will be complemented by EC and Member States specialists and 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.

As well as audits of eligible expenditures to identify and validate payments, the PEGASE team 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. Donors will be invited to participate. In addition, contributing donors may carry out ex-post audits of expenditures covered by their payments.

In addition, a mid-term evaluation report of PEGASE will be issued in mid-2009 and a comprehensive final evaluation report will be undertaken by the end of 2010.

4.6. Communication and visibility

The action will follow the visibility guidelines of the Commission.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through a weekly bulletin. An information meeting with Member States was held in Brussels on 28th May 2009 and regular meetings with Member States will be held in Jerusalem and Ramallah.