

Action Fiche for West Bank and Gaza Strip

1. IDENTIFICATION

Title/Number	Support to the Palestinian Authority – Financial Governance and State Building.		
Total cost	EU contribution: EUR 14,000,000		
Aid method / Method of implementation	Project approach – centralised (direct) management and joint management with World Health Organisation(WHO)		
DAC-code	15111 12220 (mental health project)	Sector	Government administration

2. RATIONALE

2.1. Sector context

Since June 2007 the Palestinian Authority (PA) is implementing an impressive set of Public Financial Management (PFM) reforms.

The budget department was relocated in the West Bank and the budget process rebuilt since 2007. Subsequently, the PA started to implement a Medium Term Expenditure Framework approach and progressively integrated recurrent and development expenditures. It also introduced IT budgeting systems and created a macro-fiscal unit.

In 2008, a General Accountant Department was established. A new computerised accounting system was developed. Fiscal reporting has been restored. The PA introduced a commitment control system in 2010. Its charts of accounts and budget classification have been revised. A full revision of the legal framework is also foreseen.

The PA has implemented prudent fiscal policy, contained the wage bill and implemented a range of measures to improve utility bills payment and reduce net lending. The PA also aims at reforming its procurement and pension systems.

The PA is modernising its revenue administration, including through the implementation of the custom management information system, and the development of an action plan in co-operation with the International Monetary Fund (IMF).

Cash controls and the Central Treasury Account have been re-established. The State Audit and Administrative Control Bureau (SAACB) now audits PA financial statements (starting with 2008 financial statements). The PA has reinforced and started to decentralise its internal audit function, which should contribute to increasing accountability in line ministries. The 3 pilot ministries in the framework of this reform were: Ministry of National Economy, Ministry of Public Works, and Ministry of Health.

Regarding the Ministry of Health it is worth mentioning that beyond internal audit reform, a number of initiatives are under way to improve governance and budget

efficiency in the health sector, including governance of mental health services. It is in this context that a mental health project has been added to this Action Fiche as a final exit phase which will ensure that previous investments are sufficiently consolidated.

2.2. Lessons learnt

- (1) Ownership at both technical and political level is a key to success.
- (2) The PA's limited absorption capacity should be taken into account.
- (3) Clearly articulated scope of actions and clear logical frameworks are essential, with focused set of activities, clear lines of responsibility linked to explicit timelines, as well as results that can be measured against a baseline.
- (4) Timely decisions by the beneficiaries are needed: projects should start with a realistic assessment of political willingness to benefit from individual activities.
- (5) Regular update meetings with the beneficiaries at senior level: the ministerial level is instrumental in ensuring projects meet their objectives.
- (6) Financial and technical viability is an overall concern for PA institutions and a clear exit strategy should be designed at an early stage in project preparation/implementation.
- (7) Conflicting relations between different PA stakeholders have become an important issue – there is a need to encourage co-operation between PA ministries and agencies and clearly define the responsibilities of the different stakeholders.

2.3. Complementary actions

PFM:

- The EU provides equipment and technical assistance to the SAACB and the PA internal audit and financial controls. It supports the implementation of Asycuda, a customs management information system.
- The UK Department for International Development (DFID) supported the PA's planning and budgeting process, and its accounting system.
- France is supporting the creation of a Palestinian Public Finance Institute.
- The IMF provides technical assistance and policy advice to the PA PFM systems.
- The World Bank provides the PA with strategic advice in several PFM areas.
- Norway and *Gesellschaft für Internationale Zusammenarbeit* (GIZ) provided training to the SAACB on the audit of the PA's financial statements.
- United States Agency for International Development (USAID) has supported the Ministry of Finance income tax and property tax departments, provides support to the PA customs and is planning to provide further assistance to the PA PFM systems.

Efficiency of mental health services:

The *Agence Française de Développement* (AFD) is funding a complementary project with a total budget of EUR 2,700,000, which will come to an end in June 2011. The

final evaluation of that project will be done in synergy with the evaluation of the EU funded project.

There is also a complementary EU co-financed project with International Medical Corps in Gaza (ENPI/2010/243-559), with a focus to establish mental health services and case management systems at the primary level of care, to develop occupational therapy for the rehabilitation of mentally ill people and support the families of mentally ill people through various group interventions.

2.4. Donor coordination

High level international donor co-ordination takes place at the level of the Ad Hoc Liaison Committee (AHLC).

At the local level donor co-ordination takes place under the Local Development Forum and its "Strategy Groups" (governance, economy, social and humanitarian affairs, infrastructure). Beneath these a number of sector working groups have been established. PFM reforms are discussed in the Economic Strategic Group and Fiscal Sector Working Group. Health sector coordination is maintained at different levels, with the main coordinating mechanism in the health sector being the Health Sector Working Group (HSWG). Since June 2010, the HSWG is co-chaired by the Ministry of Health and USAID, with WHO as technical advisor.

The EU also co-ordinates its interventions through thematic groups (e.g. the mental health thematic group), as well as among EU donors and through regular meetings of the EU Heads of Co-operation.

Depending of further developments, co-financing may be envisaged regarding the PFM System/ Revenue Administration component.

3. DESCRIPTION

3.1. Objectives

The **overall objective** of the action is to support the PA's efforts in strengthening its PFM system and increasing cost efficiency of basic services.

The **specific objectives** are:

- To improve the transparency, effectiveness, efficiency and accountability of the PA's PFM system.
- To reinforce PA's administrations capacities to increase revenue collection.
- To continue the implementation of the institutional, financial and operational restructuring and reforms within the electricity sector.
- To consolidate advances in the provision of integrated and cost effective, community based mental health services, in support of the Ministry of Health.
- To ensure advanced monitoring, control and audit systems are set up for all PEGASE programmes.

3.2. Expected results and main activities

3.2.1 Component 1: PFM System / Revenue Administration:

The main **expected results** under this component include:

- Enhanced PFM systems, equipment, and procedures.
- Integrated Tax administration information system available and functional.
- PA revenue administration staff trained and able to use and maintain the system sustainably.
- Capacity of PA PFM stakeholders reinforced.

The **main activities** will focus on the reinforcement of the PA PFM systems and its capacities to increase revenue collection, through the use of modern tools and procedures, in line with international standards and best practices. They will be further specified in close co-operation with the beneficiary.

3.2.2 *Component 2: Extension of the "Institutional Development and Electricity Sector Reform" project.*

The main **expected results** under this component include:

- Technical and operational support provided within the four key sector segments of the Palestinian electricity industry: regulatory and institutional capacity building, power distribution, power generation, power transmission and trading.
- Enhanced electricity sector systems and equipments.

The **main activities** consist of:

- Technical assistance for the reorganisation of the Palestinian electricity sector; in order to increase its overall capacity; secure its infrastructures; and increase collection rates.
- Support to the Palestinian electricity sector management and all stakeholders during the change process; and
- Procurement of software and hardware equipments and their installation.

3.2.3 *Component 3: Efficiency of mental health services:*

The selected strategy will be based on the newly revised national mental health strategy and the findings of the upcoming evaluation. Project results can only tentatively be anticipated as long as evaluation findings are not yet available.

The main **expected results** under this component include:

- Strengthening of rehabilitation services within community mental health services.
- Completion of efforts to integrate mental health services at primary health care centres of the Ministry of Health in the West Bank and in Gaza (e.g. training and follow-up of primary health care staff, referral system).
- Training of mental health professionals in order to fill gaps in specific human resource categories and/or specific gaps in the skills of practitioners.
- Strengthening of the support provided to mentally ill people by the communities.
- Any other measures as recommended by the evaluation.

Main activities will be developed on the basis of the evaluation results and recommendations. It is likely that the activities will be similar to the ones provided in the previous mental health project.

3.2.4 Audit, monitoring, consultancy:

The main **expected results** under this component include:

The enforcement of an advanced monitoring, control and audit systems for all PEGASE programmes. These systems ensure the efficient and effective provision of support to Palestinians, while protecting the interests of donors participating in PEGASE mechanism by ensuring that funds are disbursed with full transparency and accountability and in compliance with the relevant agreements between the EU and the PA.

The **main activities** consist of:

- Monitoring, control and audit and follow up of every PEGASE programme.
- Purchase of a "World Check" service.
- Audit and Evaluation of PEGASE programmes.
- Technical assistance and consultancy services related to PEGASE programmes.

3.3. Risks and assumptions

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 conflicts. All projects requiring the import of goods and the free movement of service providers are at risk from unpredictable policies by Israel. It is assumed that if full PA control is reasserted in the Gaza Strip, contracts under this fiche would enable a roll-out of the EU's technical co-operation programme there. The successor to the current 13th Government may be less committed to the reform agenda. PA financial sustainability also remains dependant on political developments.

Regarding PFM and revenue administration, the Government has very recently taken the decision to buy the tax administration information system indicated under 3.2 and requested its financing in the framework of 2011 programme. The Ministry of Finance is currently exploring different modalities for its implementation and will provide the Commission with a precise breakdown of needs as soon as possible. It is assumed that these needs will be able to be compatible with the Practical Guide to contract procedures for EU external actions (PRAG).

3.4. Cross-cutting Issues

The EU supports the implementation of IT systems in PA administrations and the use of electronic administrative procedures. This should contribute to decrease the volume of paper used and support environmental sustainability.

The EU PFM Programmes contribute to increasing good governance within the PA's financial institutions and the PA as a whole, through enhanced effectiveness, efficiency, transparency and accountability.

For the mental health project, gender equality is of particular relevance in the analysis of the social implications of mental illness, e.g. access of women to specialised care and gender specific dimensions of stigma, participation in social and economic activities and subsequent livelihood outcomes of people affected by mental illness. Aspects of good governance will be addressed in the direct collaboration between the Ministry of Health and the WHO and will be reflected in the project

activities and outcomes. Human rights will be of central consideration, particularly with regard to the rights of patients in institutional care, rights of disabled, reduction of stigma and preservation of dignity of mentally ill people.

3.5. Stakeholders

The final beneficiary of the action will be the Palestinian population. Key partners will include PA PFM stakeholders, the Ministry of Finance, as well as the Palestinian Energy and Natural Resources, and the Ministry of Health.

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.

Direct centralised management will apply for activities under component 1 and 2.

Component 3 will be implemented through joint management by signing an agreement with WHO that was chosen for its unique global experience in accompanying mental health reform processes and due to the fact that this project will to a large extent be a final exit phase of a previous project implemented by the WHO. The agreement will be in accordance with Article 53d of the Financial Regulation. The international organisation complies with the criteria provided for in the applicable Financial Regulation. The WHO is covered by the Financial and Administrative Framework Agreement (FAFA), and the contractual model that will be used is the standard contribution agreement.

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 delegatee body under, respectively, decentralised, joint or indirect centralised management.

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 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 the cases provided for in Article 253 of the Commission Regulation No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget.
- 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.

For component 3:

- All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.3. Indicative budget and calendar

The maximum contribution to this programme is EUR 14,000,000. The duration of this programme is estimated at 66 months after signature of the Financing Agreement, including an operational phase of 42 months and a closure phase of 24 months. The exact calendar of operations will be determined in consultation with the PA and other international partners. Procurement processes will be launched as soon as possible.

The indicative breakdown of the overall budget is as follows:

Component	Management mode, (type of contract foreseen)	Amount (EUR)
1. PFM System - Revenue Administration	Direct centralised management Mainly Supply and service contracts	3,500,000
2. Extension of the "Institutional Development and Electricity Sector Reform" project	Direct centralised management Mainly Supply and service contracts	4,900,000
3. Mental Health Service Efficiency	Joint management Contribution Agreement with WHO	1,500,000
Audit, monitoring and evaluation	Direct centralised management Service contracts	350,000
Technical assistance and services related to	Direct centralized management Mainly Service contracts	3,500,000

PEGASE
programmes (see
3.2.4)

Contingencies	250,000
Total	14,000,000

4.4. Performance monitoring

Logical frameworks including objectively verifiable indicators will be included in the contracts or contribution agreements for each activity under the programme.

Performance of the overall action will be monitored according to the following indicators:

- PA Revenue collection is improved, in line with 2011-2013 Palestinian National Development Plan (PNDP) targets.
- PA PFM System is enhanced and the PA fulfils the recurrent expenditures and net lending reduction targets included in the PNDP for 2011, 2012 and 2013.
- PA Recurrent deficit is reduced, in line with 2011-2013 PNDP targets.
- Mental health services are improved in terms of quality and accessibility.

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. Each contractor will be responsible for implementing those guidelines in line with the relevant templates.