

ANNEX I

Action Fiche for the Occupied Palestinian Territory (West Bank and Gaza Strip)

1. IDENTIFICATION

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|---------------------------------------|-------------------------------------------------------------------------------------------|--------|-------------------------|
| Title/Number | PEGASE: Support to Recurrent Expenditures of the Palestinian Authority – 2011/2012 | | |
| Total cost | EU contribution: EUR 105 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

Since its establishment in early 2008, the PEGASE mechanism (French acronym for Mécanisme "Palestino - Européen de Gestion et d'Aide Socio-Economique") provided direct financial support for the Palestinian Reform and Development Plan (PRDP). Through this support, PEGASE sustained 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 that was maintained at a reduced but still high amount in 2009 and 2010. The PRDP was superseded in 2011 by the National Development Plan, "Establishing the State - Building our Future", covering the period 2011-2013. The plan focuses on the legal framework, organisational structures and processes, the use of technology in government, the management of financial resources and the management of human resources in civil and security sectors based on 23 sector strategies. The EU has expressed its support for Prime Minister Fayyad's plan. Since mid-2011, the PA has been experiencing a serious fiscal crisis as not enough donor funds have been made available to cover its budget deficit. The financial gap for the fiscal year 2011 is estimated at around USD 300 million for its recurrent budget needs and at around USD 200 million for its development budget. Although no concrete budget data for the fiscal year 2012 is available yet, the outlook remains challenging. In 2011, EUR 145 million were provided for recurrent expenditures from the EU Budget through the PEGASE mechanism. These funds were complemented with funds from EU Member States, albeit thus far at a low level. So far in 2011, Member States have committed only EUR 6.1 million to PEGASE. Sweden has made a contribution for SEK 40 million (approximately EUR 4.3 million) to cover salaries and Finland has made a total contribution of EUR 2 million for social allowances to vulnerable Palestinian families and to cover salaries (EUR 1 million respectively). France has also made a contribution of USD 14.6 million to the PA, but not through PEGASE. Some Member States have contributed to the World Bank Trust Fund; however, the Ministry of Finance does not report on individual national contributions to the Fund.

It is hoped that further contributions from EU Member States will be made during the budget year 2011 and 2012.

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. Further support has been received from the USA (USD 51.7 million); Algeria (USD 53.2 million); Saudi Arabia (EUR 183 million); Oman (USD 9.9 million); United Arab Emirates (USD 41.6 million); Egypt (USD 1.7 million) and the World Bank Trust Fund (USD 116.7 million). Additional support from Arab donors and from the United States of America (USA) is hoped for, but not yet confirmed.

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. It is particularly appreciated by the Palestinian Authority for its alignment with the PRDP and the National Development Plan and the strong sense of ownership on the part of Palestinians, as well as for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

A mid-term review of the PEGASE Mechanism was launched by the Commission late 2009, the results of which showed that the flexibility in planning and implementation, the highly competent and professional staff and the use of well proven management systems while continuously innovating improved and new approaches, contributed to the success of this mechanism.

2.3. Complementary actions

So far in 2011, a total of EUR 436.34 million has already been committed by the European Union for the benefit of the Palestinian population: EUR 302.5 million from European Neighbourhood and Partnership Instrument (ENPI) allocations, out of which EUR 145 million for PEGASE support to recurrent expenditure and EUR 82.4 million for United Nations Relief and Works Agency's (UNRWA) General Fund. A further EUR 75 million has been allocated for projects aimed at social and economic development and institution-building in support of the Palestine National Development Plan. UNRWA has also received a further EUR 5 million allocation from the Food Security Budget Line to provide assistance for its Social Safety Net Programme to provide nutrition for those refugees living in absolute poverty. As humanitarian assistance to the Palestinian population in the Occupied Palestinian Territory (West Bank and Gaza Strip) and to Palestine refugees in Lebanon and Syria EUR 63 million have been committed. A further EUR 13.88 million has been mobilised from the Food Security budget line for civil society initiatives from the European Instrument for Human Rights and Democracy and the thematic line Non State Actors and Local Authorities in Development. EUR 30 million has been mobilised from the Instrument for Stability for actions aimed at improving the economic situation in the Gaza Strip.

Local donor co-ordination has been streamlined in accordance with the conclusions of the Ad-Hoc Liaison Committee (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 Member States co-ordination. Complementarity and co-ordination with other EU actions are assured through regular co-ordination meetings at Headquarters and daily contacts between staff working in the European Union Representative Office (EUREP) in East Jerusalem. The PA made known to potential donors at the Sharm-el-Sheik Conference in March 2009 that PEGASE was amongst 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 National Development Plan by helping the PA to:

- finance its budget deficit and implementing its reform agenda;
- meet its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society, and thus;
- maintain 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 105 million which follows previous decisions committed on 2009, 2010 and 2011 funds.

Component 1: Supporting Palestinian administration and services (Indicative allocation EUR 85 million)

The EU will make available an additional contribution to the payment of salaries and pensions to the PA civil servants in the Occupied Palestinian Territory (West Bank and 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 Strip.

Component 2: Supporting the Palestinian social protection system (Indicative allocation EUR 10 million)

The EU 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' cash support programme.

Component 3: Private Sector Arrears (Indicative allocation EUR 10 million)

The PA seeks to develop a market economy led by the private sector. The EU supports the creation of a proper environment for Palestinian businesses to flourish by providing a facility for the payment of debts which the PA has built up towards private sector businesses for the purchase of goods and services. These contributions have resulted in a rapid injection of funds into the economy, providing relief to Palestinian businesses and raising their purchasing power. They further secured the employment of thousands of Palestinian workers and consequently, ensured that the provision of services to the administration could continue. The situation has become particularly acute in the health sector.

3.3. Risks and assumptions

It is expected that contributions from Member States and other donors will be made available during the implementation period to complement the proposed funds. Fluctuations in the exchange rate may have an impact on funding needs. While it is anticipated that payment will be made in early 2012, should the availability of payment credits so allow, and subject to the adoption of Amending Budget 6/2011 by the Budgetary Authority, part of the amount [maximum EUR 45 million] may be paid in 2011.

Full co-operation with the Palestinian Authority is essential. 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 financial transactions, including transfer of funds between the West Bank and Gaza Strip.

3.4. Cross-cutting Issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the PA is assured. The actions proposed provide services vital to the social and economic rights of the Palestinian population.

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 Ministry of Finance, the Prime Minister's Office, the technical Ministries and other Departments and Agencies of the PA and UNRWA.

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 such as the Local Development Forum, the AHLC structures, the co-ordination meeting between Member States and the EU Delegation.

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. Direct centralised management will be applied for all components.

PEGASE will be implemented by the Commission through the EU Representative 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 eligible beneficiaries of the Vulnerable Palestinian Families and Civil Servants and Pensioners programmes following eligibility checks and verification and control procedures by external experts and international audit firms.).

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 Occupied Palestinian Territory (West Bank and Gaza Strip) is 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 of the PA under this decision is EUR 105 million. The contribution is indicatively distributed as follows:

Component 1: Supporting Palestinian administration and services (EUR 85 million)

Component 2: Supporting the Palestinian social protection system (EUR 10 million)

Component 3: Private Sector Arrears (EUR 10 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.

It is anticipated that, as in earlier years, other donors will make considerable contributions.

The period of implementation of the current action is 24 months. The funds under this Decision are however expected to be totally disbursed by the end of 2012.

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 International Monetary Fund (IMF) on budget execution as well as other relevant political developments.

Payments will be executed in accordance with Commission 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 Commission 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 an annual 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 of PEGASE was carried out. The results of this evaluation were taken into account in future funding proposals. Preparations for a comprehensive evaluation report covering the first three years of the PEGASE are underway. Mid term evaluations will be performed every 18 months and final evaluation after a 3-year implementation period in line with the PA development planning cycle

4.6. Communication and visibility

The action will follow the EU visibility guidelines.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through a monthly bulletin. Regular information meetings are held with Member States in Brussels as well as locally .