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ANNEX 2

of the Commission implementing Decision on the Annual Action Programme 2015 part 2 in favour of Palestine¹

Action Document for "Support to the Private Sector in Gaza"

1. Title/basic act/ CRIS number	Support to the Private Sector in Gaza CRIS number: ENI/2015038-311 financed under the European Neighbourhood Instrument			
2. Zone benefiting from the action/location	Palestine The action shall be carried out at the following location: West Bank and Gaza Strip			
3. Programming document	Single Support Framework 2014-2015			
4. Sector of concentration/ thematic area	Focal Sector 2: Support to the private sector and sustainable economic development			
5. Amounts concerned	Total estimated cost: EUR 10,000,000 Total amount of EU budget contribution EUR 10,000,000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Component 1: Indirect management with the United Nations Development Programme (UNDP) Component 2: Direct management (PEGASE mechanism) Component 3: Procurement of services			
7. DAC code(s)	32130			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

Support to the Private Sector and Sustainable Economic Development is one of the focal sectors of intervention of the Single Support Framework 2014-2015 in Palestine².

Following the EU's pledge at the Cairo Conference for Gaza in October 2014 and responding to Headquarters' instructions, interventions in 2015 will focus on measures helping the redeployment of the Palestinian Authority (PA) in Gaza and paving the way for the institutional reunification.

The action's overall objective is to promote inclusive, sustainable, private sector-led economic development and thus promote decent-job creation in the Gaza Strip, building the path towards a green economy.

The private sector in the Strip has faced more than a decade of strife and was further struck by the military operation "Protective Edge" carried out by the Government of Israel in the summer of 2014. Against this challenging background, and in order to improve Gazan companies' prospects for sustainable development, the action will specifically target the Gaza Industrial Estate (GIE).

More specifically, the intervention aims at:

- consolidating the Gaza Industrial Estate to ensure it is fully operational and works as a catalyst for industrial development. (Component 1);
- supporting an incentives programme for companies that, after the recent conflict, are interested in relocating within the GIE (Component 2);
- contributing to PIEFZA's (Palestinian Industrial Estates and Free Zones Authority) capacity to efficiently develop the industrial zones in Palestine (Component 3).

² This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

This action is in line with the PA Early Recovery and Reconstruction Plan as presented at the Cairo conference and takes into account the findings of the Detailed Needs Assessment (DNA) for Gaza developed by the PA, with EU, UN and World Bank support.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Palestinian economy remains the poorest in the region and economic (consumption-driven) growth has been volatile over the past decade. In this context, although the economies of the West Bank (WB), Gaza and East Jerusalem share many characteristics, there are also clear and acute differences as a result of physical and political separation. Trade between the WB and Gaza has virtually disappeared. Within the WB, the restrictions on access and movement imposed on goods and persons by Israel, the non-contiguous control of land by the Palestinian Authority (PA) and the lack of access to Area C are huge constraints and have contributed to the development of small "insular" economies³.

The share in the economy of the two core sectors producing tradable goods (manufacturing and agriculture) has shrunk between the Oslo Accords time and today, respectively from 19 to 12% and from 13% to 2%. The percentage value of exports to Gross Domestic Product (GDP) of the Palestinian economy (around 19% in 2013) is among the lowest in the world. Moreover, Palestinian exports are highly concentrated in low value-added goods and services, mostly directed to a small number of countries, with more than 80% of them heading to Israel. In addition, the economy is highly reliant on imports from Israel (60% of total imports in November 2014).

The Palestinian economy is characterised by firms with limited productivity, low investment and scarce competition, in spite of remarkable capacity of local entrepreneurs to adapt to the wide-ranging political and economic constraints.

From a development perspective, key issues identified include:

- increasing poverty levels and high dependence on international aid;
- very high level of unemployment: more than 26% in 2014 (WB: 17%, Gaza: 43%);
- limited access to finance;
- limited chance/ability to deepen regional integration with neighbouring countries;
- limited participation of women in the formal working sector;
- insufficient focus on environmental issues at both institutional and enterprise level.

As regards the specific case of **Gaza**, its private sector suffered especially hard blows over last ten years. The resulting, current nearly complete halt in imports and exports, determined a dramatic drop in manufacturing and agricultural outputs.

³ Micro-SMEs represent a major component of the Palestinian business reality. More than 96% of establishments operating in Palestine in 2012 had less than 10 employees. (Palestinian Central Bureau of Statistics - PCBS).

Although the blockade imposed by Israel was partially eased in 2010 (for consumer goods and construction materials for donor-funded projects), restrictions on imports of construction and raw materials for the private sector remain in place with the exception of those channelled through the so-called Gaza Reconstruction Mechanism⁴. Similarly, trade to the West Bank and Israel, which traditionally absorbed around 85% of Gaza's exports, is restricted. Combined with the destruction of the tunnels connecting the Strip with Egypt, the blockade has effectively suffocated the economy. The military operation "Protective Edge" in summer 2014 has further impacted the private sector. Thousands of factories and commercial establishments were damaged or destroyed and severe losses devastated the agricultural and fishing industries. As a consequence, unemployment - with all its socio-political effects - was further exacerbated.

1.1.1 Public Policy Assessment and EU Policy Framework

In order to **do business**, Palestinian enterprises still face many constraints. According to the World Bank Doing Business Report 2014 ("West Bank and Gaza"), Palestine ranks 138th out of 189 economies surveyed. In particular, it ranks last in "Resolving Insolvency" (189th) and very low in "Getting Credit" (165th) and "Starting a Business" (143rd).

Despite the large number of existing policies and the initiated legal reforms⁵, the degree of their implementation, effectiveness and impact seem far from satisfactory. The institutional framework remains incomplete, especially considering the lack of a Small and Medium Enterprises (SME) development strategy. However, the PA was able to successfully establish a state of the art credit registry and the Palestinian Monetary Authority (PMA) provided valuable technical support in several projects' implementation.

The **National Economic Development Plan (NEDP) 2014-16** outlines three Strategic Goals:

1. Reducing dependence of the Palestinian economy on Israel and facilitating improved international trade opportunities;
2. Developing an enabling business and investment environment in Palestine;
3. Promoting competitiveness of the industrial sector and of M-SME.

These broad goals appear consistent with the priorities of the donor community, which looks especially at facilitating trade, at creating a conducive business and investment environment and at promoting competitiveness in selected economic sectors.

In september 2014 the Cabinet endorsed the comprehensive *National Export Strategy* (NES), formulated in partnership by the private and public sectors and with EU support. The NES has been formally adopted within the *Palestinian National*

⁴ The Gaza Reconstruction Mechanism (GRM) is a temporary agreement between the Government of Palestine and the Government of Israel, which was brokered by the UN in 2014. The mechanism, based on the creation of a dedicated database of rehabilitation works, is aimed at easing approval procedures and administrative/coordination process for UN agencies engaged in construction works. It is in the current context essential to minimize the chance of critical inputs shortages hampering the works in the GIE and the actual relocation of businesses.

⁵ Among others: laws on competition, trademark/copyright, bankruptcy and amendments to the investment law.

Development Plan (PNDP) 2014-2016 and proposes comprehensive measures for export development and the competitiveness of Palestinian products in twelve key sectors: stone and marble, agro-food (olive oil, fruit/vegetables, processed meat, herbs), textile/garment, pharmaceutical, footwear and leather, furniture, gold/jewellery, metal, plastics, ICT, tourism and financial services.

As regards **Gaza**, in response to the damages caused by the operation "Protective Edge", the Palestinian Consensus Government produced an **Early Recovery and Reconstruction Plan**, presented at the Cairo conference in October 2014. The Plan calls for the re-launch of the industrial, agricultural, commercial and service sectors, foreseeing a 3-phased intervention. Phases I and II provide short and medium terms detailed scenarios for immediate relief with the objective to restore livelihoods and get businesses quickly back to work utilising: i) existing programs (Phase I) such as the DFID/EU funded Palestinian Market Development Program and ii) special programs (Phase II) tailored to support the recovery of food, construction, and wooden industries. Phase III provides for a longer term approach (to start in a year) focusing on the rehabilitation of industrial, commercial and service establishments. The action detailed in this document is expected to support the third phase of this plan, which is also in line with the already mentioned **Detailed Needs Assessment (DNA)** for Gaza.

According to the DNA, the industrial sector, followed by the commerce and tourism sectors, was the most severely damaged by the operation "Protective Edge", contributing to 60% of total damage and 49% of total loss incurred in the non-agricultural productive sectors. 33% of total damages in the non-agricultural productive sector concerned equipment, 23% final products, and 21% building and infrastructures.

According to DNA estimates, the conflict led to a loss of employment approximately of 6% in Gaza and an annualised loss of 11% GDP. The DNA recommends that reconstruction, rehabilitation and recovery of social, infrastructure and productive sectors are contextualised in a longer-term recovery (or transformation) of the Gaza Strip.

As mentioned, support to private sector and sustainable economic development is amongst the three main areas of interventions of the **Single Support Framework 2014-2015**. The objective of this support is promoting inclusive, sustainable, private sector-led economic development and thus decent-job creation in Palestine, building the path towards a green economy. More specifically, it aims at (1) improving the competitiveness of Palestinian products and services in an environmentally sustainable way; and (2) contributing to skills development, innovation, sustainable job creation and decent work, and ensuring specific actions on gender, when needed. The support foreseen through this action is in line with these objectives.

Further inspiration for the programme came from the Commission Communication "**Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries**"⁶. In the document, the Commission sets out a number of principles for strengthening the role of the private sector in EU development cooperation, principles that will guide the finalisation and

⁶ European Commission Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Region. May 2014. COM(2014)263.

implementation of the Programme: focus on employment creation, inclusiveness and poverty reduction; differentiated approach to private sector, especially in fragile contexts; creating opportunities through market-based solutions; following transparent criteria in case of direct support to private sector actors; ensuring policy coherence in areas affecting the private sector in partner countries.

1.1.2 Stakeholder analysis

Private Sector Companies in Gaza have borne the brunt of the military operation "Protective Edge" (see section 1.1.3). They are the direct target group of the action, which will support their relocation in the Gaza Industrial Estate, where their perspectives for long-term development will be substantially improved..

The **people of Gaza** will be the indirect beneficiaries of the action. The action will promote inclusive, sustainable, private sector-led economic development in the Gaza Strip, which should in turn benefit to the Gazan population as a whole.

A **Higher Inter-Ministerial Committee on Recovery and Reconstruction** headed by the Deputy Prime Minister is coordinating the Government's efforts to implement the National Early Recovery and Reconstruction Plan for Gaza. The Deputy Prime Minister Office was closely involved in the preparation of this action.

PIEFZA (Palestinian Industrial Estates and Free Zones Authority) is a governmental institution established in the mid-90s which is responsible for creating, developing and managing industrial estates in Palestine. There are currently 4 industrial estates in Palestine: the Gaza Industrial Estate (operating since 1999), the Bethlehem Industrial Park (since 2013) the Jericho Agro Industrial Park (since 2014), the Jenin Industrial Free Zone (since 2015). PIEFZA governing board is chaired by the Minister of National Economy. PIEFZA was closely involved in the preparation of this action.

PIEDCO (Palestine Industrial Estate Development and Management) is the company contracted by PIEFZA to develop and operate the Gaza Industrial Estate. It operates on the basis of a PIEFZA/PA 49 years' concession on the land and accepted to offer parallel incentives on new tenants' rental costs for multiple years, in view of the expected marked increase in the number and operational capacity of potentially relocating companies.

UNDP is the best placed implementer for Component 1 of the Programme, in consideration of: i) the availability of a UN preferential mechanism to introduce material inputs into Gaza, ii) its relevant presence in the Strip, iii) the good track record of collaboration with the Delegation and iv) the record of positive relations and on-going collaboration with PIEFZA.

1.1.3 Priority areas for support/problem analysis

According to PA figures, massive damages occurred at about 861 industrial facilities, including within the Gaza Industrial Estate (GIE). As a consequence, more than 7,000 workers lost their jobs, thereby worsening the already dire unemployment situation in the Strip. To this should be added an increase in prices of goods and services (incl. transportation), scarcity of basic products, food insecurity, communication breakdown, commercial activities virtually paralysed, agricultural fields devastated and abandoned, shortage of cash for financial institutions and limited activity in the banking sector. Finally, lack of electricity and high fuel prices

strangled numerous businesses already weakened by the blockade, import restrictions and delays in funding the reconstruction program.

The direct losses suffered by factories and workshops were estimated by the PA at about USD220 million. The damage occurred mostly in the construction, food, wooden and chemical sectors.

The National Early Recovery and Reconstruction Plan provides a framework for interventions, including off-site infrastructure (water supply, electricity, sewage, telecommunication, etc.), increasing capacity of crossing points and strengthening GIE capacity to provide efficient services to factories willing to relocate into it. The EU engaged in discussions with the PA to develop an approach which is not compensation-based and focuses on the objective of supporting the recovery "in a sustainable and competitive way" directly targeting private sector businesses.

The support to the relocation of industries to the GIE will improve their development prospects. However, in the current context, companies' financial capacities are weak and a programme of incentives is needed to allow their move into the GIE. In addition, the GIE infrastructure needs to be rehabilitated to enable full use of its potential. Furthermore, PIEFZA's capacity remains limited and needs to be reinforced, while the unstable context in Gaza requires a particularly close monitoring of any important new development initiative.

The incentives component will finance equipment and building costs⁷ for industries that are willing to re-establish their factories in the GIE also capitalising on the favourable rental conditions already negotiated with the GIE developer. This will be done on the basis of a programme to be set-up by the PA and funded through a PEGASE Programme. EU funds will be channelled directly to factories via a mechanism similar to the Partnership for Regional Investment, Development and Employment (PRIDE) scheme currently used by EU and Japan in the Jericho Agro-Industrial Park. The capacity of PIEFZA to manage this programme and to carry-out its activities will also be reinforced, in light of the lessons learned from the ongoing PRIDE programme. Against the backdrop of the unstable context in the Gaza Strip, an *in-itinere* monitoring system will be also set-up in order to regularly assess the performance of the programme and support decision-making on any necessary re-adjustment.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Israel does not permit entry of sufficient goods and inputs into the Gaza Strip to allow the project activities to be implemented.	H	Dialog and cooperation with the office for the Coordination of Government Activities in the Territories (COGAT) when needed. Use of the UNDP coordination mechanism for the infrastructural part.

⁷ Up to an established maximum amount and to a specific percentage of overall investment.

Further escalation of conflict in Gaza.	M/H	Continuous monitoring of the situation and adaptation of the action to new circumstances.
Poor coordination between PA staff in Ramallah and Gaza	H	Continuous monitoring of the situation
Insufficient PA capacities to implement the programme	M	Provision of technical assistance.
PIEFZA staff is not operational in Gaza, and does not efficiently coordinates with PIEFZA staff in Ramallah	M	Continuous monitoring of the situation, Dialog with PIEFZA, Provision of technical assistance.
Assumptions		
Israel allows sufficient inputs and goods in the Gaza Strip in order to allow the building of the factories and the equipment of the programme beneficiaries.		
Sufficient political stability		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The EU-funded PA's programme PRIDE (Partnership for Regional Investment, Development & Employment), was the first national programme in support to an industrial park in Palestine, namely the Jericho Agro-Industrial Park (JAIP). The performance of this programme - currently on-going and co-funded by the Japanese Government - has been positive. Nevertheless, limited capacity in PIEFZA has led to implementation delays. This lesson will be taken into account in the design of the current programme, which has to provide for the necessary “accompanying measures” in the form of support to PIEFZA’s capacity. In addition, it will be important to have the PA clearly defining - from the outset - each actors’ responsibilities as well as the exact features of the package of incentives offered to companies willing to re-establish their activities in the GIE.

After operation "Cast Lead", the EU had a key role in the efforts to revive the private sector in Gaza by supporting the main initiative of the Gaza Early Recovery and Reconstruction Plan: the Private Sector Reconstruction in Gaza (PSRG) programme. An evaluation of this intervention, carried out in 2013, confirmed that the PSRG objective of resumption of activities by beneficiaries was largely achieved. It also highlighted how PSRG managed to build on the resilience and financial strength of part of the local business community, providing effective leverage for the mobilisation of own financial resources. This was also made possible by the “symbolic” value of the Programme, which was perceived as a clear sign of the international commitment to support Gaza people and economy. As a consequence, the majority of beneficiaries succeeded in re-creating employment, almost reaching pre-war levels. However, PSRG impact could have been further enhanced through (i) the adoption of a more flexible and sustainability-orientated approach, (ii) the provision of complementary capacity building for the PA and private sector institutions, (iii) the simplification of procedures and (iv) the establishment and operation of a better Monitoring and Evaluation system.

An Evaluation of the EU Support to Private Sector Development in Third Countries was completed in March 2013. The study commends the EU comprehensive

approach, which provides a wide range of different types of PSD support, and recommends to:

- embed PSD support in the wider national strategy of the country;
- conduct upfront technical analysis and consultations;
- coordinate more effectively between EU different kinds of support to PSD;
- devote sufficient resources to the definition of expected results and baselines and to conduct appropriate evaluations.

Promoting SMEs is a priority area in Euro-Mediterranean industrial cooperation. One activity consisted in evaluating the implementation of the Small Business Act for Europe (SBA) in Palestine in 2014. Results pointed to the need for strengthening the institutional framework by elaborating a multi-year SME development strategy and better coordinating initiatives taken by NGOs, donors, private sector organisations and government bodies.

3.2 Complementarity, synergy and donor coordination

EU-financed programme of incentives to Jericho Agro-Industrial Park tenants: JAIP is an industrial park focused on agri-business where, similarly to the case of the Gaza Industrial Estate, the operation and management is supervised by PIEFZA. In order to attract investment in JAIP, the PA offers a range of incentives, including tax breaks, to its tenants. In this context, it has established a programme called PRIDE (Partnership for Regional Investment, Development & Employment) to provide financial support to JAIP tenants. In order to facilitate the efficient channelling of funds towards the PRIDE Programme, the EU established a PEGASE programme which entails the audits and verifications typical of all PEGASE and provides financial support to PA/EU eligible JAIP tenants to purchase equipment, machinery, tools and building material (not including installation/labour costs) for their operations in the park. Inventory costs, taxes and customs applicable to the eligible items are not covered. The value of the support received by each eligible beneficiary amounts to a maximum of 50% of the total value of assets and shall not exceed USD 0.5 million.

Japan committed USD 4 million to the PRIDE programme through PEGASE. In addition, Japan has financed infrastructure projects in JAIP through the United Nation Development Programme (UNDP), as well as technical assistance to PIEFZA.

The EU and KfW-funded **European Palestinian Credit Guarantee Fund (EPCGF)** operates through local banks and provides guarantees for loans extended to SMEs, both for capital expenditure and working capital. The fund helps stabilise the Palestinian economy and safeguards employment and income in the private sector by preserving market-economy structures in the SME and financial sectors. The fund's target group are SMEs with a maximum of 20 employees⁸ and it benefits a wide range of sectors (trade, industry, services, agriculture, construction, tourism). The loan ceiling is fixed at USD 200,000 to support borrowers who generally lack sufficient bankable collateral but have a business plan generating sufficient cash flow for repayment. In total, more than 3,650 loans have been guaranteed so far, for a cumulative amount exceeding USD136 million. As of the end of 2014, the EPCGF

⁸ 75% of beneficiaries employ less than 5 persons.

had guaranteed a total of 43 loans in Gaza, for total 930,000 USD. The EPCGF is currently seeking to increase its activity in Gaza and the PA is considering the possibility to channel additional PA funds earmarked for Gaza reconstruction through the EPCGF.

The Palestinian Market Development Programme (**PMDP**) implemented and co-funded by DFID under a contribution agreement has provided an immediate response after the war with a new a Gaza "back to work" window under the grant component of the project. The objectives of the grants shifted from technical assistance to provision of equipment and repairs. The 661 Applicants are mainly engaged in the construction, agricultural, furniture, metal and food industry.

The EU-financed and UNRWA-implemented **Emergency Job Creation Programme in the Gaza Strip 2011-13** contributed to economic development in Gaza by providing paid work for skilled and unskilled civilians. The businesses directly targeted by the project benefitted from the intervention not only through the reduction of labour costs but also through the improved capacity in business management, acquired through experts hired and placed in the Palestinian Federation of Industries (PFI).

The proposed project is also complementary with initiatives implemented at the **regional level** aiming at supporting private sector development, including: "Support to investment, innovation, and sustainable growth", "Contribution to the Neighbourhood investment facility to support the financing and development of micro and MSEs in the South Neighbourhood", "Support to the improvement of the business environment in Southern Mediterranean" and SWITCH-Med (promoting more sustainable consumption and production patterns).

As regards **donors' coordination**, the Economic Policy Strategy Group (ESG), co-chaired by the Ministry of Finance and the World Bank, is the operational forum for strategic PA-donors coordination on economic development. Three working groups have been established by the ESG: fiscal issues, agriculture and private sector development & trade (the latter co-chaired by Minister of National Economy (MoNE) and the World Bank). The EU also participates in the regular donor-PA dialogue on Economy and Trade established by the MoNE. In addition, EU coordination towards joint programming is progressing as reflected in the revised 2013 EU Local Strategy on Development Cooperation (EU LDS). The EU LDS clarifies EU Member States priority sectors of intervention and the in-country EU division of labour. Since December 2014, 16 sector fiches (including on Private Sector Development) have been jointly drafted, under the lead of the EU-lead donors and participation of EU active donors for each relevant sector, indicating the key priorities for the EU to focus cooperation and policy dialogue.

3.3 Cross-cutting issues

The proposed action will support the PA Agenda for environment protection. The relocation of industries out of urban areas will reduce the impact of pollution on the population, while ensuring a coordinated and monitored environmental impact. The GIE is expected to invest in renewable energies and cleaner technologies will be promoted among beneficiary businesses.

Public-private dialogue was encouraged during the assessment following the recent conflict and the design of the overall PA recovery programme, will be further promoted during the detailed design of the action and its implementation, with the

active involvement of PIEFZA, PIEDCO, private sector representative organisations (such as PFI) and beneficiary businesses.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

Overall objective

To promote inclusive, sustainable, private sector-led economic development and therefore promoting decent-job creation in the Gaza Strip, building the path towards a green economy.

Specific objectives

1. To rehabilitate and consolidate the Gaza Industrial Estate to ensure it is fully operational and works as a catalyst for industrial development (Component 1);
2. To support an incentives programme for companies that, after the recent conflict, are interested in relocating within the GIE (Component 2);
3. To contribute to PIEFZA's capacity to efficiently and sustainably manage and develop the industrial zones in Palestine (Component 3);

Results

- 1.1 The GIE electrical infrastructure is operational;
- 1.2 The GIE Wastewater System is operational;
- 1.3 The GIE Water well and desalinisation Unit are operational;
- 2.1 At least 20 companies are established inside the GIE thanks to the incentives provided;
- 3.1 PIEFZA's capacities are reinforced;
- 3.2 PIEFZA is implementing efficiently the incentives programme;
- 4.1 An efficient *in-itinere* monitoring system is in place.

4.2 Main activities

The action may - inter alia - include the following activities to:

- 1.1.1 rehabilitate GIE transformer rooms (16 out of 21);
- 1.1.2 repair out-of-order power cables;
- 1.2.1 rehabilitate GIE waste water rooms;
- 1.3.1 rehabilitate one water well;
- 1.3.2 rehabilitate the GIE Desalinisation unit;
- 2.1.1 implement a PEGASE programme providing incentives to companies willing to relocate into the GIE;
- 3.1.1 provide strategic advice to PIEFZA and better triggering the role of Charter/Small Business Act national coordinator;
- 3.1.2 provide training to PIEFZA staff;
- 3.2.1 provide technical assistance to PIEFZA for the implementation of the incentives programme;

4.1.1 set up an *in-itinere* monitoring system for the incentives programme;

4.1.2 implement the monitoring system.

4.3 Intervention logic

In order to contribute to the promotion of inclusive, sustainable, private sector-led economic development and relieving the problem of unemployment in the Gaza Strip, the action will strategically focus on reinforcing the efficiency and the activity of the GIE. Several considerations led to the choice of this area as an engine for potential growth and job creation. The GIE is located in a relatively protected area which suffered comparatively minor damages during the last conflicts, allowing most of its tenants to quickly get back to work⁹. Companies established in the GIE normally do benefit from well-functioning basic services and logistics: permanent provision of power is ensured through an agreement with the electricity distribution company, there are two water networks (brackish and desalinated) supplying factories from an elevated water tank and telephone and internet networks are designed to meet the needs of any facilities. It should be noted that the whole area of the Industrial Estate (including the lots still unoccupied) is indeed covered by the infrastructure network. Also, the attractiveness of the GIE is proved by the 100% occupancy rate of its already developed plots. Finally, its location is adjacent to Al Montar/Karni crossing point which could - if re-opened - be used as an alternative to Kerem Abu Salam/Kerem Shalom. Hence the GIE provides a credible vehicle for expanding productive employment opportunities and, if restrictions on exports from Gaza are released by Israel, setting the foundations for a future export-oriented area.

While the GIE infrastructure will be fully rehabilitated, relocating companies will benefit from a programme of incentives which will include a financial contribution for equipment purchase and factories' construction, channelled directly to private businesses under a PRIDE-like scheme, currently used in JAIP. In parallel, additional incentives on plots rental costs will be guaranteed by the GIE developer.

The main assumption regarding the two first specific objectives is that Israel allows sufficient inputs and goods in the Gaza Strip in order to allow the building of the factories and the equipment supply of the programme beneficiaries. The availability of preferential UN channels established over last few months with Israel was one of the most compelling reasons behind the choice of UNDP as implementer of Component 1, so to minimize the chance of critical inputs shortages hampering the rehabilitation of the GIE and the relocation of interested businesses.

In addition, the action will reinforce PIEFZA's capacity to efficiently manage the programme and develop Palestine's industrial zones.

An *in-itinere* monitoring system will be set-up to assess regularly the appropriateness and relevance of the action's design in the unstable context of the Gaza Strip. It will also monitor the effectiveness, efficiency and impact of the action at the level of businesses and the overall economy, as well as its potential sustainability. This will support decision-making on any necessary re-adjustment of the programme design and strategic orientations. For the entire programme to bear fruits along the lines of

⁹ Security concerns are unanimously referred to as the main threat to investment in Gaza. The GIE's privileged position in this regard was confirmed by dedicated civil society consultations held in Gaza in March 2015.

this intervention logic, an overarching assumption is sufficient political stability, and notably the absence of military conflicts in the Gaza Strip.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Budget Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Rehabilitation and consolidation of the Gaza Industrial Estate to ensure it is fully operational and works as a catalyst for industrial development (Component 1)

5.3.1.1 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the United Nations Development Programme (UNDP) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the rehabilitation of the Gaza Industrial Estate. The implementation by UNDP is justified in consideration of its strong experience and presence in Gaza, as well as on the positive record of collaboration registered over last years with the EU. In addition, as mentioned above (indicate under which point), UNDP has access to the UN coordination mechanism allowing the entry of construction material into the Gaza Strip: a crucial asset for the success of the project.

The entrusted entity would carry out the following budget-implementation tasks: tendering, contracting, paying, monitoring activities in view of the rehabilitation of the Gaza Industrial Estate electrical infrastructure, wastewater system, water well and desalinisation unit.

5.3.2 Support to an incentives programme for companies that, after the recent conflict, are interested in relocating within the GIE (Component 2)

5.3.2.1 PEGASE (direct management)

The second component of the action will be financed through the PEGASE mechanism, in line with its standard *modus operandi*. Ex ante audit will be performed on the programme design itself (including - inter alia - the definition of selection criteria for funding), on the individual applications/requests for funding from potentially relocating businesses and on the implementation of the to-be-reimbursed operations. Ex-post audits will, further to the payment, verify the accuracy and compliance to financial rules and regulations. The mentioned actions

are not budgeted for under this action, as they will be performed (and funded) in the framework of the contractual relations already established by the Contracting Authority for the implementation of other interventions utilising the PEGASE mechanism.

5.3.3 *Contribution to PIEFZA's capacities to efficiently and sustainably manage and develop the industrial zones in Palestine (Component 3)*

5.3.3.1 Procurement (direct management)

Subject in generic terms	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance to PIEFZA	Services	1	1 st 2016

5.3.4 *Regular strategic monitoring of the Programme (Component 4)*

5.3.4.1 Procurement (direct management)

Subject in generic terms	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
<i>In-itinere</i> Monitoring of the action	Services	1	1 st 2016

5.4 **Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 **Indicative budget**

	EU contribution (amount in EUR)	Indicative third party contribution in EUR
5.3.1. Rehabilitation and consolidation of the Gaza Industrial Estate to ensure it is fully operational and works as a catalyst for industrial development (Component 1),	2,500,000	0
5.3.1.1 Indirect management with UNDP	2,500,000	0
5.3.2 Support to an incentives programme for companies that, after the recent conflict,	7,000,000	0

are interested in relocating within the GIE (Component 2)		
5.3.2.1 PEGASE (direct management)	7,000,000	0
5.3.3 Contribution to PIEFZA's capacities to efficiently and sustainably manage and develop the industrial zones in Palestine (Component 3)	275,000	0
5.3.3.1 Procurement (direct management)	275,000	0
5.3.4 Regular strategic monitoring of the Programme (Component 4)	175,000	0
5.3.4.1 Procurement (direct management)	175,000	0
5.8 – Evaluation, 5.9 - Audit	Covered by another decision	N.A.
5.10 – Communication and visibility	50,000	0
Contingencies	0	0
TOTAL	10,000,000	0

5.6 Organisational set-up and responsibilities

Component 1:

This component will be implemented by the United Nations Development Programme.

On the PA side, the leading partner will be PIEFZA. A steering committee, meeting at least twice a year and comprising key stakeholders (including UNDP, the EU and PA representatives) shall be set up to oversee and validate the overall direction of the project.

In due consideration of the principle of ownership, the European Commission reserves the right to change the afore-mentioned organisation or the scope of the delegation, without this necessarily requiring an amendment of the financing agreement. In that case, it shall consult the beneficiary on this change and notify to it the name of the new organisation and/or the scope of the task(s) delegated to it.

Component 2:

This component will be implemented by the Commission, through the Office of the European Union Representative in East-Jerusalem.

On the PA side the leading partner in the implementation of the PEGASE programme will be PIEFZA, with the collaboration of the Ministry of Finance in the execution of the payment to final beneficiaries. Representatives of the Private Sector Federations will also be involved.

Components 3 and 4:

These components will be implemented by the Commission through the Office of the European Union Representative in East-Jerusalem. Two service contracts will be procured and contracted. Steering committees will be set-up to oversee and validate the overall direction and policy of the actions.

5.7 Performance monitoring and reporting

An *in-itinere* monitoring system will be set up and implemented.

The day-to-day technical and financial monitoring of the implementation will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission via an implementing partner. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this is the first time that such an approach is used in the Gaza Strip.

The Commission shall inform the implementing partner at least 15 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk

assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To promote inclusive, sustainable, private sector-led economic development and job creation in the Gaza Strip, building the path towards a green economy	Real GDP growth in the Gaza Strip Unemployment rate in the Gaza Strip Labour force participation rate in the Gaza Strip Share of exports of Palestinian Goods and services in the GDP	2013: 6% 2014: (est.) -15% Q4 2014: 42.8% Q4 2014: 44.9% 2013:18.6%	2019: 4% Q4 2019: 32% Q4 2019: 35% 2019: 19%	Palestinian Central Bureau of Statistics (PCBS), International Monetary Fund (IMF)	Sufficient political stability
Specific objective(s): Outcome(s)	1. To rehabilitate and consolidate the Gaza Industrial Estate to ensure it is fully operational and works as a catalyst for industrial development 2. To support an incentives programme for companies that, after the recent conflict, are interested in relocating within the GIE 3. To contribute to PIEFZA's capacities to efficiently and sustainably manage and	Number of companies operating in the Gaza Industrial Estate Numbers of workers employed in the Gaza Industrial Estate Yearly value of exports from companies established in the GIE	October 2014: 30 October 2014: 2,000 -	2019: 50 - -	PIEFZA, Progress reports	Israel allows sufficient inputs and goods in the Gaza Strip in order to allow the building of the factories and the equipment of the programme beneficiaries.

	develop the industrial zones in Palestine					
Outputs	1.1 The GIE electrical infrastructure is operational	1.1.1 Number of transformer rooms rehabilitated 1.1.2 Quantity of power cables restored (meters)	2015: 0 2015: 0	2017:16 2017: 1500	PIEFZA, Progress reports	Israel allows sufficient inputs and goods in the Gaza Strip in order to allow the building of the factories and the equipment of the programme beneficiaries.
	1.2 The GIE Wastewater System is operational	1.2.1 Number of Waste Water Room Rehabilitated	2015: 0	2017: 2		
	1.3 The GIE Water well and desalinisation Unit are operational	1.3.1 Number of Water Well Rehabilitated	2015: 0	2017: 1		
		1.3.2 Number of Desalinisation Unit Rehabilitated	2015: 0	2017: 1		
	2.1 At least 20 companies are established inside the GIE thanks to the incentives provided	2.1.1 Number of new companies established inside the GIE thanks to the incentives programme	2015: 0	2019: 20		
	3.1 PIEFZA's capacities are reinforced 3.2 PIEFZA is implementing efficiently the incentives programme	3.1.1 Number of training provided to PIEFZA staff	2015: 0	2019: tbd		
		Monitoring system established Number of Monitoring report produced	2015: 0	2019: tbd		