

ANNEX

Action Fiche

1. ARTICLE IDENTIFICATION

Title	Contribution to the Temporary International Mechanism – Windows 2 (Interim Emergency Relief Contribution) and 3 (Payment of social allowances)		
Total cost	€65 million maximum (EC Contribution)		
Aid Method	Project approach – Centralised Management		
DAC-code	72010	Sector	Emergency/distress relief

2. RATIONALE

2.1. Country context

The population living in the Palestinian Territory is facing a crisis of unprecedented proportions. The poverty rate has risen sharply and poverty reached 67 % at the end of 2006. The humanitarian situation has worsened and there has also been an increasing breakdown in law and order; this deterioration is the result of a worsening economic and fiscal situation which is driven by several interrelated factors.

The Palestinian government has so far failed to meet the Quartet principles relating to the recognition of Israel, the repudiation of violence and the acceptance of international agreements. Israel has taken the decision to withhold Palestinian clearance revenues of up to \$60 million per month and to institute a tighter closure policy affecting movement and access of people and goods to and from Gaza, as well as within the West Bank. Recently Israel has started to release part of the withheld revenues to the Office of President. The use of these funds is however restricted.

In addition many donors have put on hold projects and support directly through the new government. The Commission has suspended projects with a financial, legal or technical link with the PA, while intensifying EC humanitarian and other assistance. Overall EC support reached a record level of €330 million in 2006 compared to an average of €75 million during the last five years.

There is a deep financial and economic crisis coming on top of the existing humanitarian crisis. The non-payment of salaries, largely due to Israel's decision not to transfer clearance revenues, has had a significant negative impact on 160,000 officials and security people. This means that almost one million people have been without their regular income support for almost a year.

3. DESCRIPTION

3.1. Objectives

The Temporary International Mechanism (TIM) is a European system co-managed by the World Bank (Window I), Member States and the Commission (Windows II and III). The three windows can cover: (1) direct payment of medical, other essential supplies and running costs (2) payment of invoices for fuel and other essential utilities and (3) the provision of social allowances to Palestinians.

This project covers the two components managed by the EC and Member States: contributions to Window 2 and 3.

Window 2- Interim Emergency Reserve Contribution III: The objective is to contribute to the continued provision of essential utilities and services that have a direct impact on the well-being of the Palestinian population.

Window 3- Payment of Social allowances: The objective is to mitigate the deteriorating conditions resulting from the ongoing conflict and the subsequent economic and political crisis. This is being achieved by injecting liquidity into the economy via the direct payment of social allowances to eligible individuals.

Since June 2006, the Commission has allocated €40 million to TIM-Window 2, which will be used up by the end of January.

Through TIM-Window 3, Member States are contributing €8.33 million with Norway contributing €5.8 million, while Canada has pledged €13 million. The Commission has already provided €95.75 million of support, including €35 million from the 2007 allocation for West Bank and the Gaza Strip.

3.2. Expected results and main activities

The TIM should continue to ensure a direct impact on the lives of the Palestinian people by contributing to the continued provision of essential public utilities and services and by injecting money into the economy through the direct payment of social allowances.

Under the TIM, a payment mechanism has been established which consists of several donor bank accounts. A Management Unit, staffed by EC officials and Member States experts, is in charge of the management in close co-ordination with the Consultative Group and with the President's Office. President's Office staff, supported with technical assistance, supports the implementation of the mechanism to ensure effective and efficient provision of information to the Management Unit.

The EC assumes responsibility for the Management Unit with Member States and other donors contributing staff and financial resources. The Management Unit liaises with the President's Office concerning eligible expenditures; organises and manages the process of validation, certification, audit and payments; is responsible for validating payments to be made by individual donors; and chairs the Consultative Group.

The Consultative Group consists of representatives of the Quartet, contributing donors, the World Bank and the IMF. The Management Unit reports regularly to contributing donors and informs the Consultative Group on the implementation of the fund.

3.3. Stakeholders

The direct beneficiary of the action is the Palestinian population.

The beneficiaries 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 Office of the President of the Palestinian Authority. In addition, the scheme meets the highest transparency and accountability criteria as required by the Quartet and other donors contributing to the mechanism.

The Office of the President is the sole interface and a key partner in the implementation of the project and benefits from capacity building to strengthen its role. All donors that are supporting the mechanism are also key stakeholders.

3.4. Risks and assumptions

The mechanism has been operating effectively for over seven months in cooperation with the President's Office who has been acting as the sole interface between donors and the Palestinian Authority administration. This cooperation needs to be maintained.

3.5. Conditionalities

Given this is essentially an emergency support operation there are no specific conditions.

3.6. Crosscutting issues

Good governance principles are applied in the implementation mechanisms.

4. IMPLEMENTATION ISSUES

Both components (Windows 2 and 3) will continue to be implemented through centralised management.

Under the programme a Management Unit, comprised of EC officials and Member States experts and consultants, has been created which is in charge of the management and the implementation of the funds, in close co-ordination with the Office of the President. The EC is responsible for the Management Unit in co-ordination with other donors and international organisations. The Management Unit organises and manages the process of validation, control, payment and audit.

The funds allocated for operational support, technical assistance, capacity building, monitoring, evaluation and audit have already been secured through other financing decisions from the EC budget and through other donors.

The West Bank and Gaza 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 will be used when necessary.

2.1 TIM- Window 2

A Memorandum of Understanding will be signed between the Office of the President and the EC. Under this agreement, the EC services, in agreement with the Office of the President, will pay directly to the different providers within the financial limits and the duration of the agreement. Invoices eligible for payment will, following certification by the Office of the President of the Palestinian Authority (PA), be verified for payment according to standard EC rules and procedures.

2.2 TIM- Window 3

A Memorandum of Understanding has been signed with the Office of the President of the Palestinian Authority to implement the contributions through this window. The total amount of the action under this component will be channelled through a designated TIM-MU Imprest Account following the Commission decision. All payments are being made directly to beneficiaries through an international bank and no Community funds pass via the PA government. Each new contribution to the Window 3 will be communicated to the OoP through an exchange of letters.

4.1. **Budget and calendar**

The maximum contribution to the Windows 2 and 3 of the TIM under this decision is €65 million, indicatively distributed as follows:

TIM- Window 2: €35 million

TIM- Window 3: €30 million

Since its creation in June 2006, the European Council has extended TIM's mandate twice: for three months in September 2006 and for three additional months in December 2006. The continuation of the TIM will be reviewed in consultation with the Quartet before the end of March 2007.

4.2. **Procurement and award of grants procedures**

There are no procurement or grant actions envisaged under this decision.

4.3. **Performance monitoring**

Commission services will be responsible for day to day monitoring of the programme in close coordination with other donors. The Consultative Group will also monitor and provide advice on implementation on the basis of information provided by the Management Unit.

4.4. **Evaluation and audit**

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