

Action Fiche for the West Bank and Gaza Strip

1. IDENTIFICATION

Title/Number	Support for the private sector in the West Bank and Gaza Strip (ENPI/2012/023-844)		
Total cost	EU Contribution: EUR 11,200,000		
Aid method / Method of implementation	Project approach – Direct centralised management (Components 1 and 2) and Indirect centralised management through a Delegated Agreement with Gesellschaft fur Internationale Zusammenarbeit (GIZ- Component 3)		
DAC-code	32130	Sector	Small and Medium-Sized Enterprise (SME) development

2. RATIONALE

2.1. Sector context

The economy of the occupied Palestinian territory (oPt) has been marked by the disruption of more than forty years of occupation and conflict, during which the economic growth path has paralleled political developments. The myriad of obstacles imposed by the Government of Israel has deterred growth and resulted in an economy highly dependent on the Israeli market and on donor aid. The Palestinian economy is characterised by low levels of investment, low exports, geographical fragmentation, the decline of the industrial and agricultural sectors, workers skills deficit across all sectors, high unemployment rates (women and youth in particular) and increasing poverty levels, despite a certain comparative advantage arising from a workforce with low wages compared to its high level of education. The obstacles for the development of the Palestinian private sector are multiple and many-sided e.g. difficulty and uncertainty of obtaining movement permits for both Palestinian and foreign nationals; limited access to land and water in the West Bank; segregation from the lucrative East Jerusalem market, as well as limited access to Area C (60 % of the West Bank); de facto ban on exports from Gaza; severe restrictions on imports to Gaza; disrupting effects of settlement activity and settlers.

Economic growth in the oPt will only be sustainable if driven by the private sector. This will require Israel to ease the restrictions imposed on the Palestinian economy, which preclude private businesses from operating normally. However, there are a number of areas where the intervention of the Palestinian Authority (PA) and/or the donor community can help reduce the constraints to private sector development, for example: improvements in the business-enabling environment; increased access to finance; technical assistance to the institutions related to trade regulation/policy; enhanced availability of qualified human resources (both men and women); and financial and technical support to the private sector.

The Palestinian Authority (PA) has made private sector development a national priority. This is reflected in the "Palestinian National Plan" (PNP) for the years 2011-13.

Finally, the EU has a major interest in fostering private sector development and job creation which is expected, in turn, to lead to a reduction of the fiscal deficit of the PA, thereby increasing the Authority's ability to meet its commitments to the salaries of its officials, to which the EU currently contributes substantially through PEGASE⁸ direct financial support (DFS) mechanism.

2.2. Lessons learnt

During the implementation of the PA's EU-funded Private Sector Reconstruction in Gaza (PSRG) programme it has become apparent that for a number of beneficiaries, PSRG has acted as a risk-sharing facility that has helped businesses invest in conditions in which they would not otherwise do so. In this context, the EU decided to explore the possibility of expanding the use of the PEGASE DFS mechanism to support other PA initiatives for the benefit of other types of businesses:

(a) In Gaza, the EU assessment suggested to focus on the agricultural sector, seriously damaged by Israeli actions, and in need of significant support. The EU is currently supporting the PA in designing a programme for the benefit of this new target group and allocated EUR 3.5 million to support it via the PEGASE DFS mechanism in 2010. Component 2 under this action will allocate additional funds to finance this PA programme.

(b) In the West Bank, the EU assessment proposed a focus on farmers and agri-businesses directly affected by actions of the Israeli army or settlers. The EU is currently supporting the PA in designing a programme for the benefit of this new target group and allocated EUR 5 million to support it via PEGASE DFS in 2011. Component 1 under this action will allocate additional funds to finance this PA programme.

2.3. Complementary actions

The present action is complementary to various EU-funded projects supporting the Palestinian private sector and trade-related initiatives, namely:

(i) Private Sector Reconstruction in Gaza (PSRG) programme: The EU supports the aforesaid PA's PSRG programme with EUR 22 million via PEGASE DFS. PSRG aims at stimulating economic activity in Gaza by helping businesses affected by Operation "Cast Lead" to resume their economic activity by providing them with financial support. **(ii) European-Palestinian Credit Guarantee Fund (EPCGF):** The EU has contributed over EUR 20 million to EPCGF, which guarantees loans to SMEs both for capital expenditure and working capital through the Palestinian banking system. EPCGF is co-financed by the EU and Kreditanstalt für Wiederaufbau (KfW). **(iii) Palestinian Market Development Programme (PMDP):** PMDP is a joint initiative of the World Bank (WB), the UK's Department for International Development (DFID) and the EU. PMDP will consist of three components: (a) SME development; (b) investment promotion; and, (c) institutional capacity building. The EU has allocated a total of EUR 5.5 million to PMDP, including EUR 2 million for a window specific for the Gaza Strip. **(iv) Support to the Palestinian Standards Institution (PSI):** The EU has contributed EUR 4.5

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French acronym for *Mécanisme "Palestino-Européen de Gestion et d'Aide Socio-Economique"*.

million to support PSI through technical assistance and the provision of laboratory equipment. This initiative's objective is to modernise the Palestinian Quality Framework in areas such as standardisation, accreditation. **(v) EU support to Technical Vocational Education and Training (TVET) development in the West Bank:** This EUR 4 million programme aims to enhance the quality of training provision in order to meet the needs of the local labour market in three pilot governorates. **(vi) Trade Diversification/Competitiveness Enhancement Programme:** This programme, with to which the EU has contributed EUR 3 million, has three components: (a) Trade Corridors Facilitation: aimed at promoting the use of alternative cost- effective trade corridors; (b) National Export Strategy (NES): aimed at supporting the formulation of a NES for the 2011-2016 period and to enhance international competitiveness; (c) Trade in Services: to improve the institutional framework and strengthen Palestinian expertise in trade in services. **(vii) Support to the institutional capacities of the Ministry of National Economy:** The EU has allocated EUR 1 million to support Ministry of National Economy in strengthening its institutional and organisational capacity in compliance with the aid effectiveness agenda, as well as to support its capacities for policy formulation, with emphasis in the PA's World Trade Organisation (WTO) accession agenda.

Moreover, the EU allocated a significant amount of funds from the **Instrument for Stability (IfS)** following Operation "Cast Lead", including EUR 14.85 million for an Emergency Job Creation Programme.

All major donors in the oPt, notably the United States Agency for International Development (USAID), DFID, the Canadian International Development Agency (CIDA), France's *Agence Française pour le Développement* (AFD) and WB, have significant private sector development projects.

2.4. Donor co-ordination

High level international donor co-ordination takes place at the level of the Ad Hoc Liaison Committee (AHLIC). At the local level, donor co-ordination takes place in various fora under the Local Development Forum (LDF) and its four "strategy groups", among which the Economic Policy Strategy Group (ESG), co-chaired by the PA's Ministry of Finance and the World Bank. Under ESG, private sector development initiatives are co-ordinated through the Private Sector Development and Trade Working Group, which is co-chaired by Ministry of National Economy and WB. Besides, also under ESG, initiatives in the agricultural sector are co-ordinated through the Agricultural Sector Working Group. Co-ordination regarding TVET is embedded in the Education Sector Working Group, co-led by the Ministry of Education and Higher Education and by France, which is under the Social Development Strategy Group, but at present is not effective for the Gaza Strip. Moreover, regular contacts take place between the EU and the main donors in these sectors. In addition, EU policy is co-ordinated through regular meetings of the EU Heads of Co-operation.

3. DESCRIPTION

3.1. Objectives

The **overall objective** of the action is to promote sustainable, private sector-led, job-creating economic growth in the West Bank and Gaza Strip.

The **specific objectives** are:

- to provide financial support to farmers and agri-businesses in the West Bank affected by Israel's occupation;
- to provide financial support to farmers and agri-businesses in the Gaza Strip directly affected by Israel's blockade, Operation "Cast Lead" and/or subsequent Israeli actions;
- to enhance the availability of qualified human resources in the Gaza Strip to respond to the needs of the local labour market.

3.2. Expected results and main activities

Component 1: Assistance to Agriculture - West Bank (AAWB)

The main **expected result** of this component is that those farmers and agri-businesses in the West Bank affected by the Israeli occupation will be able to resume and/or sustain their economic activities through reconstruction, repair and replacement of damaged capital equipment and/or through support to the businesses' operational needs.

The **main activities** will be to provide financial support to eligible applicants through the PEGASE DFS mechanism, building on the PSRG programme's methodology⁹ and adapting it to the West Bank agricultural sector's particular characteristics. One or more comprehensive databases of applicants for financial support (hereinafter, the "databases") will be established by the PA on the basis of its own eligibility criteria. The EU will inter alia: (a) verify the quality of the databases and all individual applications contained in them; (b) establish its own eligibility criteria for financial support; (c) authorise the payments to those applicants that have been deemed eligible according to both PA and EU eligibility criteria; and, (d) perform ex-post audits of the payments made, as well as verifications of the use of funds received by applicants.

Component 2 – Private Sector Reconstruction in Gaza – Agriculture (PSRG-A)

The main **expected result** of this component is the same as under component 1 for those farmers and agri-businesses in Gaza directly affected by Israel's blockade, Operation "Cast Lead" and/or subsequent Israeli actions.

The **main activities** will be to provide financial support to eligible applicants through the PEGASE DFS mechanism, building on the PSRG programme's

⁹ ENPI/2009/21839.

methodology and adapting it to the Gaza agricultural sector's particular characteristics. They will be similar to the above under component 1.

Component 3: Support to TVET sector in the Gaza Strip

The main **expected result** of this component is that institutionalised TVET meet the needs of the private sector in the Gaza Strip in terms of requested skills and quality.

The **main activities** are: (a) skills development, including support to TVET institutions to provide training relevant to the local labour market, and development of partnership and community actions reinforcing the relationship between the TVET institutions and the economic sector; (b) capacity building such as institutional development of relevant stakeholders, dissemination of best practices and creation of synergies. Increasing women access to the labour market will be targeted.

3.3. Risks and assumptions

EU's support to OPT is subject to high levels of unusual types of risk, namely those arising from the continued Israeli occupation of the West Bank, the persistent blockade of Gaza, the ongoing separation between the West Bank and Gaza Strip, the violent conflict between Palestinians and Israel, and the conflict between Palestinian factions. In particular, all projects are at substantial risk from unpredictable Israeli policies and actions e.g. further restrictions regarding the trade of goods and the free movement of service providers; military actions in the Gaza Strip; demolitions and settler activity.

For Components 1 and 2, the role of the PA Ministry of Agriculture is essential in the identification of beneficiaries and eligible expenditure, as well as in the timing of payments. In order to mitigate structural weaknesses in services and departments of the Ministry of Agriculture, the EU will provide technical assistance to Ministry of Agriculture in the design and implementation of these programmes. As per Component 3, ensuring a permanent presence in Gaza of the implementing partner will be important considering the weak control and co-ordination by the PA.

3.4. Cross-cutting issues

Environmental sustainability is a central cross-cutting issue, given that Palestinian agri-businesses are typically small and use old technology: this action can support access to cleaner technologies and environmentally-friendly business practices.

Good governance principles and the use of local systems are embedded in the design of the activities: the focus on control and audit systems, notably in Components 1 and 2, promotes high standards of public financial management.

Gender equality is to be taken into account in every component of the action and sex-disaggregated data will be used when possible.

3.5. Stakeholders

The direct beneficiaries of the interventions described above are: (i) farmers and agri-businesses in the Gaza Strip directly affected by Israel's blockade, Operation "Cast Lead" and/or subsequent Israeli actions; (ii) farmers and agri-businesses in the

West Bank affected by Israel's occupation; and, (iii) selected TVET institutions and private sector representative bodies in the Gaza Strip.

For Components 1 and 2, for which EU funds will be channelled through the PEGASE DFS mechanism, implementation will be in full partnership with the PA's Ministry of Agriculture and Ministry of Finance. Component 3 will be implemented in close co-operation with Ministry of Education and Higher Education, Ministry of Labour, and with the Palestinian Federation of Industries and Chambers of Commerce.

The interventions respond to the priorities identified by the PA's in the "Palestinian National Plan" (PNP) for the years 2011-13, as well as by the Ministry of National Economy's "Gaza Economic Strategy", the Ministry of Agriculture's "Sector Strategy (2011-2013)", and the "National TVET Strategy" launched by the Ministry of Education and Higher Education and the Ministry of Labour.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Components 1 and 2: Direct centralised management will apply through the signature of a Financing Agreement between the European Union represented by the Commission and the Palestinian Authority. Mechanisms similar to the ones developed under the ongoing PSRG programme¹⁰ will be used.

Component 3 will be implemented under indirect centralised management through the signature of a Delegation Agreement with Die Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in accordance with Article 54(2)(c) of the Financial Regulation. GIZ has a solid track record of engagement and success in TVET area in the oPt and with the EU (see 2.3.vii above), and has an office in the Gaza Strip. GIZ will be fully entrusted for the implementation of the programme, including procurements of goods and services, and possibly works.

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

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 European Neighbourhood and Partnership Instrument (ENPI) Regulation (EC) 1638/2006. Further extensions of this participation to other natural or legal persons by the concerned authorising officer

¹⁰ ENPI/2009/21839.

shall be subject to the conditions provided for in Article 21(7) of the above mentioned Regulation.

For Component 3, the procedures of the Delegatee will apply, with the exception of grant award procedures. GIZ has been positively assessed and complies with the requirements of the Article 56(1) of the Financial Regulation.

4.3. Indicative budget and calendar

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 indicative breakdown of the overall budget is as follows:

Component	Method of Implementation / Type of contract	Amount (EUR)
<i>Component 1: Assistance to Agriculture - West Bank (AAWB)</i>	Direct centralised management – Direct Financial Support	2,000,000
<i>Component 2: Private Sector Reconstruction in Gaza – Agriculture (PSRG-A)</i>	Direct centralised management – Direct Financial Support	7,000,000
<i>Component 3: Support to TVET sector in the Gaza Strip</i>	Indirect centralised management Delegation Agreement with GIZ	2,000,000
<i>Audit and monitoring</i>	Direct centralised management Service contracts	50,000
<i>Visibility and communication</i>	Direct Centralised management Service contracts	50,000
<i>Contingencies</i>		100,000
TOTAL		11,200,000

4.4. Performance monitoring

The projects will be subject to both internal and external result oriented monitoring.

For Components 1 and 2, comprehensive monitoring, verification, control systems, in use for EU funds, will be established. A uniform financial reporting system will provide detailed information on operations to external stakeholders and donors. Taking into account the characteristics of the sector, the geographical location, the payment system used and donors' requests, specific adapted ex-ante, real-time and ex-post monitoring control and audit procedures will be established.

The Commission may carry out Results Oriented Monitoring (ROM) via independent consultants.

4.5. Evaluation and audit

An external final evaluation, covering component 1 and 2 of the action, will be carried out in accordance with European Commission procedures. For component 3, the Delegation Agreement will include a final evaluation at the end of the implementation period. As 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. Progress of implementation will be communicated to all stakeholders, including through the regular Operations (PEGASE) bulletin.