

Annex

ACTION FICHE FOR THE OCCUPIED PALESTINIAN TERRITORY

1. IDENTIFICATION

Title/Number	PEGASE : Support to Recurrent Expenditures of the PA (Part III)		
Total cost	€42 million maximum (Joint co-financing (EC and Austria) managed by the Commission)		
Aid method / Method of implementation	Project approach – direct centralised management		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE

2.1. Sector context

PEGASE provides direct financial support of the Palestinian Reform and Development Plan (PRDP) and is helping to sustain the Palestinian Authority's (PA) efforts in the four PRDP key sectors of; governance, social development, economic and private sector development and public infrastructure.

Despite these efforts, the living conditions of the Palestinian population continue to deteriorate, especially in Gaza. A tighter closure policy, the unstable security situation, the closure of all crossings to Gaza since mid-June last year (except for some humanitarian aid deliveries) and the restriction on the amounts of fuel allowed into the Gaza strip are deepening an already severe crisis.

These recent developments highlight the importance of the contribution of PEGASE direct financial support (payments to vulnerable Palestinian families, civil servants and pensioners, and the provision of fuel to the Gaza power plant for the production of electricity, and support to the private sector through the reimbursement of arrears due by the PA).

The funds provided from the EC budget (€16 million) have been complemented with funds from EU Member States. Since February 2008, the following donors have committed funds for a total amount of €85.97 million to PEGASE Direct Financial Support: Malta (€0.15 million), the Netherlands (€5.25 million), Slovenia (€0.15 million), Spain (€20 million) Sweden (€10.62 million) and United Kingdom (€20.8 million). Germany has already paid €20 million and Belgium has made a firm commitment for €9 million, both for fuel payments. Contacts for additional support from other potential donors are ongoing

Disbursements under PEGASE Direct Financial Support operations are proceeding rapidly. The EC funds made available at the beginning of the year together with expected donor funds will cover the needs for direct financial support for payments

to vulnerable Palestinian families, civil servants and pensioners, and the provision of fuel to the Gaza power plant, at current prices and current rates until October 2008.

A number of factors have necessitated the utilisation of committed funds at a faster rate than initially foreseen.

Firstly, the partial removal of Israel restrictions on the amounts of fuel allowed into the Gaza strip has led to an increase in the quantity of fuel delivered. This together with the increase in the fuel price has meant that the budget foreseen for this expense was insufficient to cover to the real needs.

Secondly, the PA has decided to accelerate the clearance of salary arrears accumulated during 2006 and 2007. These factors have led the PA to request donors to front-load their payments to the beginning of the year. Most donors have responded to this request, including the EC. Some donors are planning to go beyond their initial pledges. (US, Algeria).

Moreover, mainly due to these two factors IMF estimates in May 2008 indicated that the PA is likely to be facing a financing gap of broadly \$400 million in the second half of 2008, larger than foreseen at the Paris donor conference. According to the most recent IMF estimates, this gap has increased to \$650 million.

Important efforts have been made by Commissioner Ferrero-Waldner to encourage other donors to deliver on their Paris pledges and to reallocate funds towards direct financial support, the highest priority of the PA.

2.2. Lessons learnt

Actions under PEGASE builds upon the successful experience of the Temporary International Mechanism in 2006 and 2007 and are being taken forward in full coordination with Palestinian partners and in full cooperation and transparency with EU Member States, the European Parliament and other donors.

An independent external evaluation of the TIM was launched in May 2007 and covered all activities since the beginning of TIM at the end of June 2006 to the end of June 2007. The main conclusions of the evaluation stated that TIM has been an innovative instrument, capable, in a very difficult and complicated environment, to quickly mobilise resources from a number of different donors and to target them efficiently to the most needy, at a time when political constraints impose that, in order to participate, potential donors must assure transparency and accountability which can be provided only by rigorous and complete fiduciary procedures. It also noted that TIM was viewed positively and directly improving living conditions for a large part of the Palestinian population. The overall efficiency of TIM (Windows 2 and 3) was the most appreciated feature. A final evaluation and audits of TIM are currently being undertaken and results will feed into the implementation of PEGASE.

2.3. Complementary actions

EU funding under ENPI available for the occupied Palestinian Territory in the 2008 budget (€300 million) was committed at the beginning of the year. Most of the funds

(€176 million) were allocated for direct financial support under PEGASE (recurrent expenditure (with €40 million additional funding committed in August), infrastructure projects (€37 million) and Institution Building projects (€4million) in support of PRDP programmes, while the remaining amount was allocated to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) (€71 million), and East Jerusalem initiatives (€2 million).

Support to direct financial support has also been provided by other donors either through PEGASE, directly to the Palestinian Authority or via the World Bank. So far in 2008 the PA has received broadly \$1,342 million (€08 million) in direct financial support.

In addition to funds under ENPI, other EC contributions for the benefit of the Palestinian population are implemented through thematic programmes including International NGOs as well as by the humanitarian and food aid programmes of ECHO. ECHO has committed €1.5 million so far in 2008 for humanitarian actions in favour of the Palestinian population and refugees. Support is also provided to the refugee population through UNRWA.

2.4. Donor coordination

Local donor co-ordination has been streamlined in accordance with the conclusions of the 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 MS co-ordination. Complementarity and coordination with other EC actions are assured through regular coordination meetings at Headquarters and daily contacts between ECHO and RELEX/AIDCO staff working in the ECTAO in Jerusalem.

At the Paris donor conference in December 2007 donors made pledges in support of the PRDP. Most donors are fulfilling their pledges.

3. DESCRIPTION

3.1. Objectives

The objective of this action to be implemented through PEGASE is to support the Reform and Development Agenda of the Palestinian Authority by helping the PA to:

- finance its budget deficit and implement its public finance reform;
- meet its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society;
- 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 will be eligible for support under this action, for a total amount of €42 million:

Component 1: Supporting Palestinian administration and services

PEGASE will make available a monthly contribution to the payment of salaries and pensions to the PA civil servants in the West Bank and Gaza. The objective of this activity is to help the PA meet its financial obligations towards civil employees and pensioners. The contribution to the funding of the wage 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 therefore to provide services to the Palestinians in the West Bank and Gaza.

Component 2: Supporting the Palestinian social protection system

PEGASE will make available at regular intervals direct financial support to vulnerable families in the West Bank and Gaza. The objective of this activity is to ensure the continued assistance to poor and vulnerable Palestinian families dependent on financial aid from the PA administration. This activity reinforces the reform of the social protection system and improves PA public finances by granting the PA budget a reduction of expenditure through the coverage of allowances due to the beneficiaries of the Ministry of Social Affairs' (MoSA) cash support programme.

Component 3: Supporting the provision of essential public services

The objective of this activity is to help the Palestinian Authority ensure the continued provision of essential public services for the benefit of ordinary Palestinians. In particular, the fuel deliveries to the Gaza Power Generating Company (GPGC) will be funded under this component. This ensures the continued provision of electricity to households, schools, hospitals and public services in the area. The reimbursement of the costs of other public services, for example, health referral costs etc. is also foreseen.

3.3. Risks and assumptions

The above mentioned operations are based on full cooperation with the Palestinian Authority. This cooperation 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 the delivery of fuel into the Gaza Strip, or on financial transactions.

If the Agreement on Movement and Access is gradually implemented following negotiations post-Annapolis, PEGASE can be a powerful instrument at the disposal of the PA government, of Europe and of the International Community, to mobilise resources thereby contributing to the successful recovery of the Palestinian economy and the construction of a Palestinian State based on peace and prosperity.

3.4. Crosscutting Issues

Good governance principles are applied in the implementation mechanisms.

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 cooperation and full partnership with the Prime Minister's Office, the Ministry of Finance and the technical Ministries and other Departments and Agencies of the PA.

PEGASE will be coordinated 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 coordination groups already in place in liaison with the PA administration and the Office of the Quartet Special Representative like the Local Development Forum, the AHLC structures, the coordination meeting between Member States and the EC Delegation etc.

All donors supporting the mechanism will also be key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management will be applied for all components.

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 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 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 under this decision is €42 million. The contribution is indicatively distributed as follows:

Component 1: Supporting Palestinian administration and services (€30 million)

Component 2: Supporting the social protection system (€1 million assigned revenues Austria))

Component 3: Supporting the provision of essential public services (€11 million)

This total amount includes EUR 1,000,000 contribution from Austria to be transferred after signature of a transfer agreement by all parties concerned in accordance with article 17.3 of the ENPI Regulation 1638/2006 and art. 18.1(aa) of the Financial Regulation.

PEGASE runs for a 3 year period in line with the PRDP and will cover the financial years of 2008, 2009 and 2010. The period of implementation will be 24 months. The funds under this decision are expected to cover disbursements to the end of 2008.

Funds for the necessary technical assistance, evaluation, audit and visibility actions have already been made available under previous decisions.

4.4. Performance monitoring

PEGASE will 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 IMF on budget execution as well as other relevant political developments.

Payments will be executed in accordance with EC regulations. A sophisticated and uniform financial reporting system will be implemented, giving detailed information on all operations processed. Individual beneficiaries as well as businesses will be uniformly checked against international sanctions lists.

Depending of the type of project and programme financed, of the characteristics of the sector of activity concerned, of the geographical location, of the payment system used and of donors requests, specific ex-ante, real-time and/or ex-post monitoring and control procedures will be put in place

4.5. Evaluation and audit

Financial experts and qualified auditors will work for PEGASE which will be complemented by EC 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 a general 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 report of PEGASE will be issued in mid-2009 and a comprehensive final evaluation report will be undertaken by the end of 2010.

4.6. Communication and visibility

The action will follow the visibility guidelines of the Commission. It is intended to reinforce the Commission's efforts to gain recognition for its unprecedented efforts in 2006 and in 2007 and to highlight the evolution to PEGASE in 2008 with the emphasis on moving from emergency to development assistance.

This will be done in close co-ordination with the Member States.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through the weekly bulletin.