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COMMISSION IMPLEMENTING DECISION

of 7.8.2013

on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to European Parliament and Council Regulation (EC) No 1638/2006 of 24 October 2006 laying down the general provisions establishing a European Neighbourhood and Partnership Instrument (hereinafter referred to as 'the basic act') and in particular Article 13(2) thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002[1] (hereinafter referred to as 'the Financial Regulation'), and in particular Article 84 thereof,

Whereas:

(1) Since 2002 the Commission has set priorities for co-operation with Palestine on an ad hoc basis and Article 13 of Regulation (EC) No 1638/2006 provides for the adoption of special measures in the event of unforeseen and duly justified needs or circumstances. Given the difficult situation within Palestine, no strategy paper or multi-annual indicative programme has been established covering 2013.

(2) The EU remains committed to assist in the economic and financial development of a future viable Palestinian State and to provide the necessary support to the post-Annapolis process.

(3) The criteria set out in Regulation (EC) No 1638/2006 and conditions for the adoption of special measures are fulfilled. Palestine continues to be in a crisis situation, further aggravated by the effects of the conflicts in Gaza in December 2008 and November 2012, the continued economic blockade, the lack of progress in Israeli-Palestinian negotiations as well as by the lack of tangible achievements following the announcement of intra-Palestinian reconciliation.

(4) This Decision complies with the conditions laid down in Article 94 of the Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the Rules of Application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (hereinafter referred to as 'Rules of Application').

(5) This Decision should decide that the Commission acknowledges and accepts the contribution from other donors pursuant to Article 21(2)(b) of the Financial Regulation, subject to the signature of the relevant agreement, and should decide on the use of such contribution.

[1] OJ L 298, 26.10.2012, p. 1.

(6) The Commission may entrust budget-implementation tasks under indirect centralised management (indirect management with a Member State or EU agency) to the entities identified in this Decision, subject to the conclusion of a delegation agreement. The responsible authorising officer has accordingly ensured that these entities comply with the conditions of Article 56(1) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities[2] (hereinafter referred to as 'the Financial Regulation 1605/2002') and of Article 35 of its Implementing Rules[3].

(7) The Commission may entrust budget-implementation tasks under joint management (indirect management with an international organisation) to the entities identified in this Decision, subject to the conclusion of a contribution agreement. The responsible authorising officer has ensured that these entities comply with the conditions of Article 53d of the Financial Regulation 1605/2002 and of Articles 35 and 43 of its Implementing Rules.

(8) The maximum contribution of the European Union set by the present Decision should cover any possible claims for interest due for late payment on the basis of Articles 83 of the Financial Regulation and 111(4) of its Rules of Application.

(9) The Commission is required to define the term “non-substantial change” in the sense of Article 94 (4) of the Rules of Application to ensure that any such changes can be adopted by the authorising officer by delegation, or under his or her responsibility, by sub-delegation (hereinafter referred to as the 'responsible authorising officer').

(10) The measures provided for in this Decision are in accordance with the opinion of the European Neighbourhood and Partnership Instrument Committee set up under Article 26 of the basic act.

HAS DECIDED AS FOLLOWS:

Article 1

The Special Measure (part III) in favour of Palestine, constituted by the actions identified in the second paragraph, is approved.

The actions, the description of which is set out in the attached Annexes, shall be:

- “Governance Programme”;
- “Support to the Private Sector”;
- “Sewerage Nablus East” and
- “Support to the Delivery of Community Services in East Jerusalem”.

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2 OJ L 248, 16.9.2002, p. 1. These provisions remain applicable according to Article 212 of the Financial Regulation.

3 Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities. OJ L 357, 31.12.2002, p.1. These provisions remain applicable according to Article 212 of the Financial Regulation.

Article 2

The maximum contribution of the European Union for this Special Measure is set at EUR 52,000,000 to be financed from budget line 19 08 01 02 of the general budget of the European Union for 2013.

Article 3

Budget-implementation tasks under choose indirect centralised, and joint management may be entrusted to the entities identified in the attached Annexes, subject to the conclusion of the relevant agreements.

Section 4 of the Annexes referred to in the second paragraph of Article 1 sets out the elements required by Article 94(2) of the Rules of Application.

The financial contribution referred to in Article 2 shall also cover any possible interest due for late payment.

Article 4

Increases or cumulated changes of the allocations to the specific actions not exceeding 20% of the maximum contribution of the European Union shall not be considered substantial, provided that they do not significantly affect the nature and objectives of the actions. The use of contingencies shall be taken into account in the ceiling referred to in this article.

The relevant authorising officer may adopt these non-substantial changes in accordance with the principles of sound financial management and proportionality.

Done at Brussels, 7.8.2013

For the Commission
Štefan FÜLE
Member of the Commission

ANNEXES

Special Measure in favour of Palestine

Annex 1: Action Fiche for "Governance Programme"

Annex 2: Action Fiche for "Support to the Private Sector"

Annex 3: Action Fiche for "Sewerage Nablus East"

Annex 4: Action Fiche for “Support to the Delivery of community Services in East Jerusalem”

<u>ANNEX I</u>

to the Commission Decision on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

<u>Action Fiche for Palestine</u>

1. IDENTIFICATION

Title/Number	**Governance Programme** **ENPI/2013/024-708**		
Total cost	Total estimated cost: EUR 26,500,000 Total amount of EU budget contribution: EUR 13,000,000 The action is co-financed (joint co-financing) by: Kreditanstalt für Wiederaufbau (KfW) for an amount of EUR 13,500,000		
Aid method / Method of implementation	Project approach: Component 1: Indirect centralised management with KfW Component 2: Direct centralised management- procurement of services		
DAC-code	15112 15111	Sector Sector	Decentralisation and support to subnational government Government administration

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The proposed project aims to support general governance in Palestine, by supporting municipalities after the 2012 local elections and by strengthening the PEGASE[1] programme's efficiency and leverage in providing direct financial support to the Palestinian Authority (PA).

[1] Mécanisme Palestino-européen de Gestion de l'Aide Socio-économique

The *Palestinian Municipality Development Programme* (MDP) contributes to developing the 134 Palestinian municipalities in Palestine. It provides them with technical assistance to improve service delivery, transparency and civil participation. Under this new measure, municipalities will benefit from capital investment based on the priorities they defined in their *Strategic Development Investment Plan* (SDIP). Special attention will be given to social accountability and gender mainstreaming.

Since 2008, PEGASE has provided systematic support to the PA in building strong governmental institutions that could be the basis for a future independent Palestinian State. This includes (i) institutional capacity building in governance, social development, economic and private-sector development, and public infrastructure, and (ii) funding for the PA's recurrent costs of delivering basic public services, such as salaries/pensions, and social allowances in the West Bank and Gaza Strip.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

Palestine's economy has been marked by over 40 years of occupation and conflict, during which economic growth paralleled political developments. The obstacles imposed by Israel have deterred growth and resulted in an economy that is highly dependent on the Israeli market and on donor aid. The Palestinian economy is characterised by: low levels of investment; low exports; geographical fragmentation; a decline of the industrial and agricultural sectors; a skills deficit across all sectors; high unemployment rates (of women and youth in particular); and rising poverty levels, despite a certain comparative advantage arising from a workforce that has low wages compared to its high level of education.

Since mid-2011, the PA has been experiencing a serious fiscal crisis. Its liquidity problems have resulted in the PA paying its salaries and pensions with delays and in instalments on several occasions. In addition, the PA has accumulated significant domestic payment arrears, notably to the private sector. Moreover, the situation has been aggravated by several instances of Israel withholding the transfer of 'clearance revenues' due to political developments. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations against the PA took place, in the wake of increasing prices, high unemployment and the PA's inability to pay the previous month's civil service salaries.

In April 2013, Salam Fayyad resigned as Prime Minister of the Palestinian Authority. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas this Cabinet should make way for a consensus government by 15 August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that *"In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace*" underlining *"the urgency of renewed, structured and substantial* *peace efforts in 2013"* and declared that *"towards this end, it is ready to work with the US and other international partners, including within the Quartet"*. The United States' Secretary of State Kerry launched a new initiative to resume the peace talks recently.

2.2.1.2. National development policy

The three-year 'Palestinian Reform and Development Plan 2008-2010' (PRDP), which laid out a three-year fiscal and policy agenda for reform and development, received an unprecedented level of external support, notably from the European Union (EU). Subsequently, in August 2009, Prime Minister Fayyad presented the PA's 'Ending Occupation, Establishing the State (Programme of the 13th Government)' plan. Based on the PRDP, it aimed to build strong governmental institutions that could serve as the basis of a future independent Palestinian State within a two-year timeframe.

In August 2010, the PA presented a new document called "Homestretch to Freedom", which reviewed the achievements made in the first year of the aforementioned "Ending Occupation, Establishing the State" and put forward plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) in Brussels, the PA presented the "National Development Plan" (NDP) for the years 2011-13 to the donor community. The NDP is consistent with "Homestretch to Freedom" and the PRDP and has also received donor support. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.2. Sector context: policies and challenges

The Palestinian population is largely urban, with 72% living in 134 municipalities. The population is approximately 4 million. Municipalities, which existed prior to the establishment of the Palestinian Authority, have a clear role as the closest level of governance, representation and accountability for citizens. However, municipal governments face profound challenges in meeting their responsibilities. Budgets have been shrinking due to the on-going conflict, poor municipal management, and a culture of non-payment amongst users, eroding the coverage and quality of municipal services. Although municipalities can access seventeen revenue sources,[2] collections are also extremely volatile. Consequently, although the 134 municipalities are required to provide basic services within 27 functions mandated by law, only three functions (solid waste management, street maintenance and water supply) are consistently provided by the majority of municipalities. It is doubtful that municipalities could finance extensive service improvements in the current fiscal context.

Nonetheless, the PA and municipalities have demonstrated significant progress in municipal and local development. In 2005, the PA established the Municipal Development and Lending Fund (MDLF) to address municipalities' financing and capacity building, followed, in 2009, by the Municipal Development Programme

[2] This includes: user fees for electricity, water, solid waste collection, slaughterhouses, and public markets; building permits and fees for signs collected locally; property tax, professional tax, and transportation tax, collected nationally.

(MDP)[3] to implement the local government goals of the Palestinian Reform and Development Plan (PRDP). The MDLF was established in October 2005 by Ministerial Decree, with the legal mandate to provide direct development assistance to municipalities by providing them with transparent, rules-based and efficient financing, and for implementing national policies in the local government sector, as required by the Minister of Local Government. The PA's practical achievements have included the development of a unified chart of accounts and standard budget guidelines.[4] Finally, since 2008, the Ministry of Finance has been rolling out a programme to improve property-tax collection, supported by the Japanese International Cooperation Agency and the Danish International Development Agency (DANIDA). Collection increased from USD 10 million in 2006 to USD 30 million in 2010. These improvements have resulted in approximately 112 municipalities graduating to a higher performance ranking, according to a national municipal performance ranking system developed as part of the PA's MDP.

As regards component 2 of this programme, the European Union has supported the Palestinian national reform agenda and general PA governance capacity by providing direct financial support for the PA's recurrent expenditures, through PEGASE, since 2008. To date, close to EUR 1.5 billion have been channelled through this mechanism, mainly towards the payment of salaries of PA civil servants/pensioners, social allowances for the poorest citizens, and arrears. Implementation of PEGASE direct financial support programmes (known as 'PEGASE DFS') builds on advanced monitoring, control and audit systems, as well as on technical support for identifying, implementing and follow-up of programmes. This support contributes to the PA's overall governance efforts, and is channelled through the PA treasury. It involves intensive policy dialogue with the Ministry of Finance, which is progressively becoming the PA's sole contracting authority for all partially-decentralised projects funded by the EU. Other line ministries (including for justice, water and public works) have over time benefited from capacity-building support from the European Union.

2.3. Lessons learnt

The MDP is continuously being assessed and reviewed. The lessons drawn from phase 1 of the Municipality Development Plan (MDP) were presented during a pre-appraisal visit for phase 2, from 6-16 November 2012. They included the following:

- The objective of phase 1 of the MDP was to improve municipal management practices to lead to more transparency. According to the latest progress review, phase 1 is meeting its key performance indicator targets, and in some cases even exceeding them.

- Participation in decision-making on capital investment projects could be improved.

[3] The Municipal Development Project 1, in support of the Municipal Development Programme, was financed by 7 funding partners and is a precursor to this project.

[4] First supported by the EMSRP (Emergency Municipal Services Rehabilitation Project) 1 and 2, and now by Municipal Development Project 1.

- The principles of social accountability, sustainability and transparency should be fostered when delivering municipal services.

- Results, including municipal performance rankings and the Municipality Development and Lending Fund's (MDLF's) annual reports, should be published.

- Gender mainstreaming should be introduced into the MDP.

-The present Results-Based Outcome Monitoring methodology used at present could be improved by complementing it with a participatory monitoring and evaluation approach that focuses on institutional learning.

2.4. Complementary actions

In 2012, the MDLF completed the Emergency Municipal Services Rehabilitation Programme (EMSRP II) which had been funded by several international partners. The objective of the EMSRP was to rehabilitate damaged infrastructure such as solid waste collection, street lightning, water and electricity supply. In addition, the MDLF completed the Local Development Programme (LDP1), with support from the Danish Government. The LDP1 was a pilot programme that created local government clusters made up of local-government units. The idea was to cluster small government units and integrate them into existing municipalities. In addition, the MDLF is currently implementing the Local Government Capacity Building Project (LGCBP), also with support from the Danish Government. This project supports the Ministry of Local Government in its work on building capacity in financial management and accounting, as well as in the planning of small-scale infrastructure for village councils. The World Bank has recently financed a study to assess the generation of municipal revenue, focusing on three key areas: expenditure and service delivery, municipal revenue and service delivery, and municipal entrepreneurship.

Last but not least, the Japan International Cooperation Agency is currently supporting the Local Financial System by assisting municipalities in developing a property-tax system.

2.5. Donor coordination

Donor co-ordination takes place in various forms under the Local Development Forum (LDF) and its four "strategy groups", amongst them the Local Government Sector Working Group, which meets 3-4 times per year and is led by the Ministry of Local Government and co-chaired by Denmark. Ad-hoc meetings of international partners are called when developments in the sector so require.

Multi-donor supervision meetings on the Municipal Development Programme, led by the MDLF, are held on a semi-annual basis. For the MDP programme, planning and implementation, including financial management, procurement, reporting, monitoring and evaluation, are fully coordinated by the funding partners and aligned with MDLF procedures. The MDLF, and therefore the MDP programme, has provided an excellent and widely acknowledged platform that acts both as a way of coordinating donors and as a common funding channel.

3. DETAILED DESCRIPTION

3.1. Objectives

The overall objective is to improve municipal management practices for better service delivery and municipal transparency.

The specific objectives are:

-Better service delivery in the Gaza Strip, to be achieved through municipal Grants for Capital Investment and operating expenditure (except salaries);

-Better capacity of municipalities, to be achieved through capacity-development packages;

-More citizen participation in improving local governance.

The proposed project supports all 134 municipalities in Palestine. It is difficult to estimate the project's direct beneficiaries who benefit from capital investment since these are demand driven. Consequently, the number of direct beneficiaries for capital investment will only be known at the end of the project. Other project beneficiaries include: the 134 municipalities benefiting from technical assistance; users/citizens using customer services centres; and the implementing agency i.e. the MDLF.

3.2. Expected results and main activities

<u>*Component 1*</u>*: Municipality Development programme — Phase 2*

The main **expected results** are:

-Improved capacity for municipalities to deliver better service to the Palestinian people, which means upgrading their performance category compared to phase 1;

-Implemented and completed capital investment projects (with final acceptance certificates);

-Social accountability and transparency measures applied by municipalities by the end of phase 2;

-Engagement of citizens in participatory evaluation and in updating the process of establishing *Strategic Development Investing Plans*.

The **main activities** are:

-Municipal Grants for Capital Investment. Performance-based grants are to be allocated for capital investment in accordance with the mandate of municipalities, as well as for the operating expenditures of municipalities in the Gaza Strip.

-Technical assistance to municipalities and the MDLF. This aims to: i) support municipalities in improving their performance and ii) strengthen the MDLF's capacity to assist the PA in municipality development.

-Project Implementation Support and Management Costs. This includes: financing goods and consulting services to improve management practices, outreach and communication; local technical consultants; and the MDLF management fee.

Component 2: Specific audit and monitoring measures

The main **expected results** include ensuring the PA's general governance capacity, by enforcing advanced monitoring, control and audit systems for all PEGASE programmes of direct financial support. These systems ensure the efficient and effective provision of support to Palestinians, while protecting the interests of donors participating in PEGASE by ensuring that funds are disbursed with full transparency and accountability and in compliance with the relevant agreements between the EU and the PA.

Moreover, the ability of the Ministry of Finance to act as Contracting Authority for all partially decentralised contracts funded by the EU will be enhanced. Staff from line ministries, including for justice, water and public works, will also benefit from technical assistance as part of EU-PA cooperation.

The **main activities** include:

- Purchase of software solutions to screen beneficiaries against international sanctions and other lists;
- Audit and verification services and evaluation of PEGASE DFS programmes;
- Technical assistance and consulting services related to PEGASE DFS programmes;
- Capacity building and technical assistance within the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Justice and the Palestinian Water Authority.

3.3. Risks and assumptions

The implementation of EU's support to Palestine is subject to unusual types and high levels of risk, namely those arising from the continued Israeli occupation of the West Bank, the persistent blockade of Gaza, the on-going 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.

Municipal Risk: there is an additional risk specific to the municipalities, as their capacity for sub-project implementation is not always sufficient. The project therefore provides for the possibility of additional support in the form of local technical consultants, selected through procurement procedures.

As regards the risk related to municipalities' budget management, including for those located in the Gaza Strip, no sub-funds will be transferred. The MDLF will pay contractors and suppliers directly, on behalf of the municipalities, according to the sub-grant agreements between the MDLF and each municipality.

As regards the project risks for stakeholders and donors, it is assumed that municipalities will not jeopardise the MDP's incentive system.

3.4. Cross-cutting issues

Good governance: Municipalities will propose priority sub-projects for capital investment, based on a consultative planning process and agreement in municipal councils. The project aims to improve local good governance and accountability of local government bodies towards their citizens. Components 1 and 2 contribute to good governance by promoting high standards of financial management. The recurrent costs of maintaining the infrastructure projects built into the MDP's framework will be financed by the municipalities, though they are relatively limited due to the nature of the works. The Ministry of Education and Ministry of Health will pay for the salaries of employees recruited to work in the new schools and clinics.

Gender equality: Gender equality will be promoted in both components. In component 1, special attention will be given to strengthening women's influence during the process of developing the Strategic Development and Investment Plan (SDIP), which is a participatory process during which priority infrastructure projects are chosen. In order to ensure that women express themselves freely, the power imbalances between men and women will be addressed. It is moreover expected that additional social infrastructure built in the framework of the MDP, such as kindergartens and clinics, will create additional job opportunities, particularly for women.

Environmental sustainability: Environmental sustainability will be promoted throughout component 1 activities. The sub-projects to be funded include the development and rehabilitation of municipal small-scale infrastructure. The expected environmental and social impacts of these sub-projects are expected to be positive.

The MDLF has developed the Environmental and Social Management Framework (ESMF) to set up procedures and mitigation measures related to the MDP's environmental social impact. The ESMF is based on the World Bank's environmental and social policies.

3.5. Stakeholders

The 134 Local Government Units (LGU) are the programme's direct beneficiaries. They will be responsible for implementing the sub-projects they identify through a participatory public consultation process.

The programme's other stakeholders are the MDLF and the Ministry of Local Government. The MDLF will be responsible for project implementation. It is managed by a Board of Directors chaired by the Minister of Local Government. Its 11 members include representatives of: the public sector (Minister of Planning and Administrative Development, Minister of Finance, Minister of Public Works and

Housing, Ministry of National Economy); civil society (Engineers Association, Banking Association, Association of Palestinian Local Authorities, women's association); and 2 mayors.

Civil society organisations participate in developing municipalities' Strategic Development and Investment Plans (SDIP) and are therefore key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, a financing agreement with the partner country is envisaged, referred to in Article 184(2)(b) of the Financial Regulation.

The indicative operational implementation period for this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 60 months. This period may be modified if necessary, with any changes to be agreed by the authorising officer responsible for the agreement.

4.2. Implementation components and modules

4.2.1. Component 1: Indirect centralised management with Kreditanstalt für Wiederaufbau

This action, which aims to enhance the capacities of the Palestinian municipalities, will be implemented through indirect centralised management with Kreditanstalt für Wiederaufbau (KfW), in accordance with Article 54(2)(c) of the Financial Regulation 1605/2002. This is justified because KfW has been a long-term partner of the Ministry of Local Government and the MDLF (since 2005). It is the largest single donor to the programme and a reliable partner for implementing infrastructure projects. It has channelled its funds through the Municipality Development and Lending Fund (MDLF) since the beginning. The KfW has provided EUR 32 million of funding so far. Another EUR 13.5 million are planned to fund the first phase of the MDP2.

KfW has a proven track record in implementing large-scale infrastructure programmes in harmony with other donors. As the majority of EU funds to the MDP will be used for implementing infrastructure projects, KfW has the required experience and expertise. KfW is currently implementing water and sanitation projects in the municipalities, which is a focal area of action for the EU, and is strongly involved in the MDLF's institutional development, an area the EU would like to support during MDP2. Furthermore, KfW has proved to give adequate attention to gender, social accountability and youth participation.

KfW will be responsible for the overall administration of all activities.

It intends to sub-delegate the implementation tasks related to the MDP project to the Municipality Development and Lending Fund (MDLF), a semi-governmental organisation set up to: i) enable local government units to provide quality services and achieve sustainable development according to national plans and policies, ii) ensure sound coordination of action in the sector, and iii) provide a harmonised funding channelling system for the following funding partners: the Palestinian Authority, Agence Française de Développement (AFD), the Belgian Development Agency (BTC), the Danish International Development Agency (DANIDA), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Kreditanstalt für Wiederaufbau (KfW), the Swedish International Development cooperation Agency (SIDA), the Netherlands, Switzerland and the World Bank.

For the MDP project, the MDLF has developed efficient, transparent, non-discriminatory procedures to rank municipalities, allocate grants for capital investment and capacity development, and help them to plan and implement projects that improve municipality services. A procurement manual has been developed to help municipalities meet their obligations in managing works and supplying contracts. The municipalities are responsible for procurement and tendering, as well as for contracting out the work (under close supervision of the MDLF which ensures that all contractual obligations are met). The MDLF makes payments directly to the contractors.

All tender, procurement and payment procedures followed in the MDP project are those of the MDLF, agreed on and validated by all financial partners involved in phase 1 (AFD, BTC, JICA, KfW, SIDA, World Bank).

Specific provisions will be included in the delegation agreement.

The change of method of implementation constitutes a substantial change except where the Commission "re-centralises" or reduces the level of budget-implementation tasks previously entrusted to the agency.

4.2.2. Procurement (direct centralised management) shall apply to component 2

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
PEGASE DFS related programmes	Services	6	Q3 2014

4.3. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, geographical eligibility will be determined according to the rules set out in the basic act for the place of establishment and for the origin of supplies and materials purchased.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under ENPI are eligible to participate in procurement procedures under this action because ENPI co-funds it.

The authorising officer responsible may extend the geographical eligibility in accordance with Article 21(7) of the basic ENPI act, if products and services are not available in the countries concerned, in cases of extreme urgency, or if the eligibility rules would make implementing this action impossible or exceedingly difficult.

4.4. Indicative budget

Components	Amount in EUR thousand	Third-party contribution
Municipality development programme, phase 2 (indirect centralised management)	7 300	13 500
Specific audit and monitoring measures (direct centralised management)	4 800	
External evaluation and audit	300	
Communication and visibility	100	
Contingencies	500	
Totals	13 000	13 500

4.5. Performance monitoring

The Commission may carry out Results Oriented Monitoring (ROM) via independent consultants, starting from the sixth month of project activities. This monitoring will be finalised at the latest 6 months before the end of the operational implementation phase. Sex-disaggregated data will be used when possible.

The implementing agencies will be responsible for continuous day-to-day technical and financial monitoring. Projects will be subject to internal and external results-oriented monitoring. Internal monitoring will be carried out by the implementer, the beneficiary institution/s and the delegation. External monitoring will be carried out by external consultants contracted by the European Commission.

The MDP’s financing partners meet twice per year for a supervisory visit to monitor the programme’s progress. The results of each mission are recorded and will be included in the annual report.

4.6. Evaluation and audit

a) The Commission or the Delegated Body for component 1 will carry out external evaluations, as follows:

-a possible mid-term evaluation visit;

-a final evaluation, at the beginning of the last phase;

-a possible ex-post evaluation.

b) The Beneficiary and the Commission will analyse the conclusions and recommendations of the mid-term evaluation and jointly decide on the follow-up action to be taken and any adjustments necessary, including, if indicated, reorientation of the project. Reports from other evaluation and monitoring visits will be given to the beneficiary, who will take into account their recommendations.

c) The Commission will inform the Beneficiary at least 6 days in advance of any planned visits. The Beneficiary will work efficiently and effectively with the monitoring and/or evaluation experts, and will provide them with all necessary information and documentation, as well as access to the project premises and activities.

4.7. Communication and visibility

The action will follow the EU's communication and visibility guidelines, which can be found here:
http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf.

Information and communication activities to raise awareness of the action itself, of EU support and the impact of this support will be carried out. Each contractor will be responsible for implementing communication activities in line with the EU guidelines and in consultation with the EU office in Jerusalem. The beneficiary/contractor will inform the EU of upcoming communication activities and will invite the EU to relevant events.

ANNEX II

to the Commission Decision on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

Action Fiche for Palestine

1. IDENTIFICATION

Title/Number	**Support to the Private Sector** **ENPI/2013/024-701**		
Total cost	Total estimated cost: EUR 11 000 000 Total amount of EU budget contribution: EUR 11 000 000		
Aid method/ Method of implementation	Project approach: *Component 1:* Joint management with the United Nations Development Programme (UNDP) *Component 2:* Centralised indirect management with the Belgian Development Agency (BTC) *Component 3:* Centralised direct management (PEGASE Direct Financial Support mechanism)		
DAC code	32130	Sector	Small and medium-sized enterprise (SME) development

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

Private sector development is one of the European Union (EU)'s focal sectors of intervention in Palestine. The current action focuses on three sub-sectors within private sector development: (i) Tourism industry development; (ii) Micro, small and medium enterprises (MSME) development; and (iii) Industrial parks.

2.2. Context

2.2.1. Country context

2.2.2. Economic and social situation and poverty analysis

The economy of Palestine 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 obstacles imposed by Israel have 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, a worker 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 Palestinian Authority (PA) has since mid-2011 been experiencing a serious fiscal crisis. Its liquidity problems have caused it to pay its salaries and pensions with delays and in instalments on various occasions. The PA has also accumulated significant domestic payment arrears, notably to the private sector. The situation has been aggravated by the withholding on several occasions of the transfer of 'clearance revenues' by Israel due to various political developments. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the Authority's inability to pay civil servants' salaries for the previous month.

In April 2013, Salam Fayyad resigned as Prime Minister of the Palestinian Authority. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas this Cabinet should make way for a consensus government by 15 August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that *"In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace*" underlining *"the urgency of renewed, structured and substantial peace efforts in 2013"* and declared that *"towards this end, it is ready to work with the US and other international partners, including within the Quartet"*. The United States' Secretary of State Kerry has launched a new initiative to resume the peace talks recently.

2.2.2.1. National development policy

The "Palestinian Reform and Development Plan 2008-10 (PRDP), which set out a three-year fiscal and policy agenda for reform and development, received an unprecedented level of external support, in particular from the European Union (EU). Subsequently, Prime Minister Fayyad presented in August 2009 the PA's plan 'Ending Occupation, Establishing the State' (Programme of the 13th Government). Based on the PRDP, it aimed to build strong governmental institutions that were to serve as the basis for a future independent Palestinian State within a two-year timeframe.

In August 2010, the PA presented a new document called 'Homestretch to Freedom', which reviewed the progress achieved in the first year of the 'Ending Occupation, Establishing the State' programme and put forward the plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) meeting in Brussels, the PA presented the National Development Plan (NDP) for the years 2011-13 to the donor community. The NDP is consistent with 'Homestretch to

Freedom' and the PRDP and has also received donor support. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.3. Sector context: policies and challenges

The obstacles to the development of the Palestinian private sector are numerous and many-sided, e.g. the 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 and limited access to Area C (60 % of the West Bank); the de facto ban on exports from Gaza; severe restrictions on imports to Gaza; and the disrupting effects of settlement activity and settlers.

Only a dynamic and rapidly growing private sector will be able to provide the jobs needed by the expanding Palestinian population and generate the revenues required to fund essential government services and to increase the Authority's ability to pay the salaries of its employees, to which the EU currently contributes substantially. The removal of the restrictions imposed by Israel on access to markets and to natural resources continues to be a prerequisite for the expansion of the Palestinian private sector.

The PA has made private sector development a national priority. This is reflected in the NDP for the years 2011-13. In particular, the Ministry of National Economy (MNE) has prioritised micro, small and medium enterprises (MSMEs) and the establishment of industrial parks in its development agenda. The agenda also highlights tourism, which is seen as offering growing potential for economic activity, even though substantially restrained by Israeli restrictions and by the unrest in Palestine— tourism is also seen as a means to preserve cultural heritage and identity.

2.3. Lessons learnt

Lessons are drawn from similar projects:

- The previous EU project that resulted in the rehabilitation of Khan Al Wakale, implemented by UNESCO: the aim of the Development of Cultural Tourism component of this programme is to build on this experience in order to link infrastructure conservation with the management of cultural sites with a view to economic development.

- A business service sector analysis was issued by the UK's Department for International Development (DFID) in 2011 in which the need to upgrade the quality of services was identified as a key challenge for the private sector. The DFID-funded Facility for New Market Development (FNMD) programme demonstrated that most enterprises do not attach enough value to strategic business services such as market research, quality standards, marketing strategies, product development or other sophisticated business support services. Because of the lack of demand for such strategic services, business service providers have limited capabilities and see no reason to upgrade them. This in turn leads to enterprises being relatively unsophisticated, experiencing problems in producing competitive quality products and services and even preparing business plans to secure access to bank finance or venture capital funds. The aim of the second component 'Start-Ups Incubators Project component of this programme is to respond to this need. The set-up and operating details of the fund and eligibility criteria for beneficiaries will be detailed during the design phase to be launched soon.

- The PA's EU-funded Private Sector Reconstruction in Gaza (PSRG) programme, where the EU decided to expand the use of the mechanism to support other PA initiatives for the benefit of different types of businesses. The aim of the third component is to build on the existing mechanism in support of PRIDE (Partnership for Regional Investment, Development and Employment), which is the first national programme supporting an industrial park, namely the Jericho Agro-Industrial Park (JAIP).

2.4. Complementary actions

Private Sector Development is a focal sector of EU support to the Palestinians, with a total of EUR 58 000 000 allocated from 2006 to 2012. Relevant EU-funded projects supporting the Palestinian private sector and trade-related initiatives complementing this action are: (i) the Private Sector Reconstruction in Gaza (PSRG) programme, (ii) the European-Palestinian Credit Guarantee Fund (EPCGF), (iii) the Palestinian Market Development Programme (PMDP), (iv) Support to the Palestinian Quality Infrastructure (PSI), (v) Support to the institutional capacities of the Ministry of National Economy, (vi) the Trade Diversification/Competitiveness Enhancement Programme, (vii) EU support for Technical Vocational Education and Training (TVET) development in the West Bank.

The EU also allocated a significant amount of funds from the Instrument for Stability (IfS) following Operation 'Cast Lead', including EUR 14 850 000 for an Emergency Job Creation Programme.

All major donors in Palestine, not least the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the World Bank (WB) — and, amongst the EU Member States, the UK, through the Department for International Development (DFID), France, through the Agence Française de Développement (AFD), and Germany, through Kreditanstalt für Wiederaufbau (KfW) — are conducting significant private sector development projects related to this programme.

2.5. Donor co-ordination

Donor co-ordination takes place in various fora under the Local Development Forum (LDF) and its four 'strategy groups', including the Economic Policy Strategy Group (ESG), co-chaired by the PA's Ministry of Finance and the World Bank. Under the ESG, private sector development initiatives are coordinated through the Private Sector Development and Trade Working Group (PSDTWG), which is co-chaired by the Ministry of National Economy and the World Bank. Regular contacts also take place between the EU and the main donors in these sectors. In addition, EU policy is coordinated through regular meetings of the EU Heads of Cooperation. There is no formal forum for coordination around industrial parks yet, but increased informal coordination has recently taken place which is expected to lead to a more structured policy dialogue to support the development of an overall national policy on the matter.

3. DETAILED DESCRIPTION

3.1. Objectives

The **overall objective** of the action is to promote sustainable (green and inclusive), private sector-led, job-creating socio-economic development in the occupied Palestinian territories.

The **specific objectives are**:

- to enhance green and inclusive socio-economic development through Public-Private Partnership (PPP) in the cultural tourism sector;

- to support the creation and the financial sustainability of MSMEs in Palestine;

- to support the emerging Industrial Parks policy and contribute to the first national industrial parks programme called ‘Partnership for Regional Investment, Development and Employment (PRIDE)’, which is providing incentives to Jericho Agro-Industrial Park (JAIP) tenants.

3.2. Expected results and main activities

Component 1: Support for the Development of Cultural Tourism

The main **expected result** of this component is the development of a model for PPP for the management of cultural heritage for tourism purpose.

The **main activities** are: (i) a feasibility study to assess the economic potential of the two initially identified cultural sites so as to confirm the choice of the sites or propose new ones; (ii) revitalisation of the Maqam En-Nabi Musa complex (Ministry of Tourism and Antiquities/Jericho Governorate), including rehabilitation and conservation of the infrastructure, development of tourism and cultural facilities (i.e. cultural centre, guest house and restaurant, tourism information centre) on the basis of a business plan; (iii) put into operation Khan Al Wakale (Nablus Municipality), through support to local authorities in the tendering process; (iv) development of a Public-Private Partnership model for the management of cultural heritage for tourism purposes in collaboration with the Ministry of Tourism and Antiquities and based on the two experiences, through legal support to the establishment of public-private agreements and capacity building.

Component 2: Start-Ups Incubators Project

A preliminary feasibility study conducted in January 2013 to ascertain the relevance of the project and define areas of support for start-ups has identified access to financial services and development of business services as critical for the sustainability of MSMEs.

The main **expected result** of this component is improved conditions for the creation of micro, small and medium enterprises (MSMEs) and enhancement of their skills in becoming more competitive and financially sustainable.

The **main activities** are:

(i) Institutional support and awareness promotion (improving the enabling environment, increasing awareness of opportunities). Under this activity, with a view to ensuring sustainability, support will be provided to local authorities to act as permanent information centres. In addition, incentives to formalise existing informal businesses will be addressed through dedicated technical assistance to improve the business environment.

(ii) Incubation support (training of trainers, voucher scheme for consultancy support, mobile training school, coaching entrants into incubation). The voucher scheme will contribute to the permanence of trained consultants through the creation of a pool of accredited local consultants which will guarantee the quality of their services and possibly lead to an increase in demand for their services from MSMEs and people wanting to set up a business.

(iii) Access to finance. The project will bring together a number of potential investors from Palestine and abroad (affluent individuals and families, diaspora) and Palestinian financial institutions and will provide technical support for the establishment of an Angel Fund mechanism.

Component 3: *PEGASE Direct Financial Support to the PRIDE (Partnership for Regional Investment, Development and Employment) national programme*

The main **expected result** of this component is that the Jericho Agro-Industrial Park attracts a critical mass of tenants and that tenants receiving funds under the programme successfully start their operations in the park.

The **main activities** will build on experience with the PSRG and the programme's methodology. A comprehensive database of applicants for financial support from the PA's PRIDE programme of financial support to JAIP tenants will be established by the PA on the basis of its own eligibility criteria. The EU will inter alia: (i) verify the quality of the database and all individual applications contained in it; (ii) establish its own eligibility criteria for financial support; (iii) authorise payments to those applicants that have been deemed eligible according to both PA and EU eligibility criteria; and (iv) perform ex-post audits of the payments made and verifications on the use of funds received by applicants.

Specific qualitative and quantitative indicators will be developed for each component.

3.3. Risks and assumptions

Implementation of the EU's support to Palestine is subject to unusual types and high levels of risk, namely those arising from the continued Israeli occupation of the West Bank, the persistent blockade of the Gaza Strip, the on-going 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 trade in goods and the free movement of service providers; military actions in the Gaza Strip; demolitions and settler activity.

For the first component, an additional risk relates to the potential resistance from religious authorities that might object to the scope of the Maqam complex being extended from a pilgrimage site to a non-religious tourist attraction. This risk has been already mitigated at the identification stage through a meeting with all main stakeholders, including the Ministry of Tourism and Antiquities.

3.4. Cross-cutting issues

Good governance principles, the use of local systems and empowerment of local stakeholders are embedded in the design of the activities. The focus on control and audit systems, particularly in Component 3, promotes high standards of public financial management.

Gender equality will be promoted in every component of the action and sex-disaggregated data will be used when possible.

Environmental sustainability is a central cross-cutting issue in this programme and environmentally friendly business practices will be promoted through the three components.

3.5. Stakeholders

The direct beneficiaries of the programme are businesses and/or persons interested in investing in the tourism sector, local associations, local authorities (namely Nablus Municipality and Jericho Governorate), national business service providers, entrepreneurs, and Jericho Agro-Industrial Park tenants eligible to receive funds under the programme.

The other main stakeholders in the programme are the national authorities (Ministry of Tourism and Antiquities, Ministry of Waqf and Religious Affairs, Ministry of National Economy and its Palestinian Industrial Estates and Free Zones Authority (PIEFZA), Ministry of Labour, Ministry of Finance), Chambers of Commerce, private sector representative organisations, the Palestine Investment Promotion Agency, private investors, existing incubators and centres of excellence at universities, financial institutions, and venture capital actors.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, a financing agreement is to be concluded with the partner country, as referred to in Article 184(2)(b) of the Financial Regulation.

Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2 and 4.3 will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.2. Implementation components and modules

*4.2.1. Component 1 (Support to Development of Cultural Tourism): Joint management with the **United Nations Development Programme** (UNDP)*

This action, with the objective of enhancing green and inclusive socio-economic development through Public-Private Partnership (PPP) in the cultural tourism sector, will be implemented via joint management with the UNDP.

This method of implementation is justified because the UNDP has solid experience in the restoration and rehabilitation of cultural heritage sites in Palestine, coupled with the necessary management capacities. The UNDP has worked actively over the past ten years in projects of this kind and has effectively formulated a rehabilitation project within the EU's East Jerusalem programme. In addition, the UNDP has established a successful partnership with the Ministry of Tourism and Antiquities which will certainly contribute to the smooth implementation of the assistance.

Joint management with this international organisation in accordance with Article 53d of Financial Regulation 1605/2002 is possible because the organisation is bound by a long-term framework agreement (FAFA) and the project is developed jointly between the organisation and the Commission.

The UNDP might consult UNESCO or other specialised partners on an ad hoc basis on international standards for the rehabilitation aspects.

The UNDP will be responsible for all the budget implementation tasks, using its own procedures. A change in the method of implementation would constitute a substantial change except where the Commission 're-centralises' or reduces the level of budget implementation tasks previously entrusted to the UNDP.

4.2.2. Component 2 (Start-Ups Incubators Project): indirect centralised management with the Belgian Development Agency (BTC)

This action, with the objective of supporting the creation and financial sustainability of start-ups in Palestine, will be implemented through indirect centralised management with the Belgian Development Agency (BTC) in accordance with Article 54(2)(c) of Financial Regulation 1605/2002. This method of implementation is justified because:

- BTC is responsible for implementing the General Agreement on Development Cooperation between the Palestinian Authority and Belgium. Since 2000, BTC has implemented projects in Palestine focusing on sustainable development and infrastructure. In addition to building structures, they have built capacity and trained human capital so that the local population draws a great deal of benefit from these structures.

- A Delegation Agreement with BTC will have the added value of capitalising on the experience gained by BTC through the TVET programme which it is currently implementing in Palestine. This project has enabled youth and adults to acquire and update their skills through continuously adapting market-based vocational training programmes in some selected priority fields such as electro-technology and electronics, communications technology, information technology and business administration and has impacts in four areas: linking training with the labour market, institutional capacity building, market-based training and support for innovative ideas by TVET stakeholders.

- It is in line with the Guiding Principles of the EU backbone strategy, namely working through harmonised and aligned action.

- BTC has passed the EU 6 pillars assessment and is qualified for receiving funding from the EU.

The agency will be fully entrusted with the implementation of the project, including the procurement of services, and the selection of beneficiaries for incubation technical support and funding; it will implement all activities including providing training, advisory and facilitation services related to the following three main components:

1. *Improved business environment for start-ups through institutional support and awareness raising;*

2. *Increased number of entrants into incubation and of final number of success rates of start-ups through the provision of an incubation support mechanism;*

3. *Enhanced access to finance for start-ups.*

A change in the method of implementation would constitute a substantial change except where the Commission 're-centralises' or reduces the level of budget implementation tasks previously entrusted to the agency.

4.2.3. Component 3 (PEGASE Direct Financial Support to PRIDE): Direct centralised management

Direct centralised management will apply to component 3, through the PEGASE Direct Financial Support mechanism, and to audits and evaluations.

4.3. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act will apply.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under ENPI shall be eligible for participating in procurement procedures under this action because it is co-funded by that instrument.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act ENPI on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the implementation of this action impossible or exceedingly difficult.

4.4. Indicative budget

Component	Amount in EUR thousands	Third party contribution
4.3.1. — Component 1 (Support to Development of Cultural Tourism): Joint management with UNDP	5 000	0
4.3.2. — Component 2 (Start-Ups Incubators Project): Indirect centralised management with BTC	3 500	0
4.3.3. — Component 3 (PEGASE Direct Financial Support to PRIDE): Direct centralised management	2 000	0
4.7. — Evaluation and audit	350	0
4.8. — Communication and visibility	50	0
Contingencies	100	0
Totals	11 000	0

4.5. Performance monitoring

The project will be monitored by the beneficiary according to relevant indicators of performance, including gender-disaggregated data. The choice of key progress indicators will form part of the project formulation process and each action will be supported by a logical framework including objectively verifiable indicators to evaluate the level of achievement at each stage. If information on baseline values necessary to establish relevant indicators is not available, the projects could be designed in such a way that the baseline is established during the first months of implementation and the target values are adapted accordingly.

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

4.6. Evaluation and audit

- The Contribution Agreement with the UNDP will provide for an ex-post evaluation one year after the implementation period in order to assess the operation of the sites. A mid-term evaluation may be also carried out.

- The Delegation Agreement with BTC will provide for mid-term and final evaluation. If appropriate an ex-post evaluation will be conducted.

- Comprehensive monitoring, verification and control systems, in use for EU funds disbursed through the PEGASE DFS mechanism, 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. If relevant a final evaluation will be conducted.

When necessary, external mid-term, final or ex-post evaluation of project components and/or global evaluation of the whole action will be conducted in accordance with European Commission procedures. When necessary external audits/ verification missions will be undertaken by the EU.

4.7. Communication and visibility

In accordance with the EU visibility guidelines for external actions, the action will incorporate information and communication activities to raise awareness of the action, the EU support and the impact of this support. Each contractor will be responsible for implementing those activities in line with the EU guidelines and in consultation with the EU office in Jerusalem. The beneficiary/contractor must inform the EU about upcoming communication activities and invite the EU to visibility events.

ANNEX III

to the Commission Decision on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

Action Fiche for Palestine

1. IDENTIFICATION

Title/Number	**Sewerage Nablus East** **ENPI/2013/024-753**		
Total cost	Total estimated cost: EUR 44,260,000 Total amount of EU budget contribution: EUR 20,000,000 This action is co-financed in joint co-financing by a grant from the German Government for an amount of EUR 19,870,000 This action is co-financed in parallel co-financing by local contributions for an amount of EUR 4,390,000		
Aid method / Method of implementation	Project approach Component 1 - Indirect centralised management with Kreditanstalt Für Wiederaufbau (KfW) Component 2 - Direct centralised management		
DAC-code	14022 31140	Sector	Sanitation - large systems Agricultural water resources

2. RATIONALE AND CONTEXT

2.1 Summary of the action and its objectives

Water and Sanitation is one of the European Union (EU)'s focal sectors of intervention in Palestine. The current action focuses on two sub-sectors within the Water and Sanitation sector development: (i) wastewater collection and treatment and (ii) reuse of treated wastewater for agricultural purposes.

The action consists of 2 components: 1. East Nablus Sewerage project, and 2. Capacity building and preparatory studies.

2.2 Context

2.2.1 Country context

2.2.1.1 Economic and social situation and poverty analysis

The economy of Palestine 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 obstacles imposed by Israel have 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.

Since mid-2011 the Palestinian Authority (PA) has been experiencing a serious fiscal crisis. Its liquidity problems have caused it to pay its salaries and pensions with delays and in instalments in various occasions. The PA has accumulated significant domestic payment arrears, notably to the private sector. Moreover, the situation has been aggravated by the withholding in several occasions of the transfer of "clearance revenues" by Israel due to several political developments. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the authority's inability to pay the civil service salaries for the previous month.

In April 2013 Salam Fayyad resigned as Prime Minister of the PA. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas, this Cabinet should make way for a consensus government by mid-August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that *"In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace*" underlining *"the urgency of renewed, structured and substantial peace efforts in 2013"* and declared that *"towards this end, it is ready to work with the US and other international partners, including within the Quartet"*. The United States' Secretary of State Kerry has, launched a new initiative to resume the peace talks recently.

2.2.1.2 National development policy

The three-year "Palestinian Reform and Development Plan 2008-2010" (PRDP) which laid out a three-year fiscal and policy agenda for reform and development received an unprecedented level of external support, notably from the European Union (EU). Subsequently, Prime Minister Fayyad presented in August 2009 the Palestinian Authority's (PA) "Ending Occupation, Establishing the State (Programme of the 13th Government)" plan. Based on the PRDP, it aims at building strong governmental institutions that should serve as the basis for a future independent Palestinian State within a two-year time-frame.

In August 2010, the PA presented a new document called "Homestretch to Freedom", which reviews the achievements made in the first year of the aforementioned "Ending Occupation, Establishing the State" and puts forward the plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) in Brussels, the PA presented the "National Development Plan" (NDP) for the years 2011-13 to the donor community. The NDP is consistent with "Homestretch to Freedom" and the PRDP and has also received donor support. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.2 Sector context: policies and challenges

Palestinians living in the West Bank have very limited access to water. Due to Israeli restrictions, they currently exploit 20% of the groundwater resources only, while the remaining 80% are for exclusive Israeli use (including the illegal settlements)[1]. The governance system established by the Oslo II agreement Article 40 requires the approval by Israeli authorities of any proposed PA management measure or infrastructure project within the West Bank. This arrangement, together with the way it has been implemented, gives Israeli authorities effective control over the allocation and management of West Bank water resources. Israeli territorial jurisdiction in Area C (over 60% of the West Bank) consolidates this control, which makes integrated planning and management of water resources virtually impossible for the PA. At best, the PA role is reduced to improving water and sanitation services to Palestinian communities within the constraints laid down. As an illustration, the Israeli Water Authority has used its role as de facto regulator to prevent Palestinian drilling in the Western Aquifer, despite growing demand from Palestinian consumers and whilst increasing its own off take from the aquifer above agreed levels.[2]

Almost 70 % of the West Bank population is still not connected to a sewerage collection network. Untreated wastewater disposal (domestic, agricultural and industrial) has environmental and health impacts. In the West Bank, the percentage of wells not reaching the minimum requirements of the World Health Organisation in terms of nitrates concentration[3] has risen from 11% in 2001 to 30% in 2009.[4]

Unaccounted for water (network losses + water illegal connections) is estimated between 24 and 36% of the water produced in the West Bank. This situation is mainly due to the prevailing security, economic, water resource and institutional constraints which hinder the performance of service providers.

1 *La géopolitique de l'eau, Rapport d'information* - Commission des affaires étrangères – Assemblée Parlementaire, République Française, Président M. Lionnel Luca, Rapporteur M. Jean Glavany, 13/12/2011.

2 *Assessment Of Restrictions On Palestinian Water Sector Development, Sector Note*, The World Bank, April 2009.

3 WHO recommended limit : NO^{-}_{3} 50 mg/l.

4 *National Water Strategy for Palestine,* Draft, Palestinian Water Authority, 12/2012.

The water & wastewater sector is undergoing a reform programme which was endorsed by the Prime Minister as well as all major donors, in the form of a memorandum of understanding (MoU) for alignment and harmonization signed in July 2012. The MoU describes the reshuffling of functions in the water and sanitation sector. The Palestinian Water Authority (PWA) is expected to concentrate on its ministerial and planning functions while regulation, service provision and project implementation should be taken over by separate bodies.

This project mainly intends to address health and environmental concerns caused by the flow of untreated sewage in the environment (component 1) and to potentially (i) complement capacity building of the water and sanitation sector institutions in Palestine and/or (ii) prepare future EU projects in the sector (component 2). Currently, wastewater flows untreated into the environment from East Nablus, including industrial emissions, and the surrounding villages which are part of the same water basin. The effluent reaches the agricultural areas East of Nablus, the Wadi Sajour/Badan valley and eventually reaches the Jordan Valley.

In Nablus, Non-Revenue Water (NRW) is currently estimated to 35% of water produced. This is mainly due to the fact that the water network in Nablus is not divided into individual pressure zones and that the data basis for locating and identifying the main causes for NRW are insufficient. The ongoing Water Loss Reduction 2 project aims to address this situation[5].

2.3 Lessons learnt

For component 1, lessons are drawn from similar large scale sanitation projects: the West Nablus Wastewater Treatment Plant (WWTP) and the North Gaza WWTP both to be commissioned in 2013. Results oriented monitoring for the North Gaza WWTP was carried out in September 2012 raising mainly sustainability issues in a context of closure of the Gaza Strip which impedes economic development and the related recovery of costs for operators.

As for the reuse component, the identification of this project builds on the experience gained from developing the Water Sanitation and Reuse Programme (EUR 22,000,000, currently in the detailed design phase and in the same region, i.e. North-Western West Bank), as well as the reuse component of the North Gaza Emergency Sewage Treatment project (estimated cost USD 28,000,000; available EU funding USD 8,000,000) as well as the 2010 Food Security medium scale wastewater treatment and reuse programme being implemented in 6 villages (EUR 9,000,000). As for component 2, the potential capacity building sub-component would build on

[5] One of the components or the Water Loss Reduction 2 project is to finance the separation of the network into individual pressure zones and the installation of a Supervisory Control and Data Acquisition SCADA (Supervisory Control and Data Acquisition) system. Based on a subsequent detailed analyses of water balances for individual pressure zones the most effective investment measures to technically reduce water losses will be identified. At the same time a comprehensive hands-on capacity development measure will take place, aiming at transferring practical, operational knowledge to Nablus Municipality on how to reduce water losses in its supply system.

the lessons learnt from the ongoing Technical and Planning Advisory Team project[6] as well as the Institutional Water Sector Review[7] and related reform programmes.

2.4 Complementary actions

Water and sanitation is a focal sector of EU support to Palestine with a total of EUR 66,000,000 invested by the EU in the water and sanitation and solid waste management sectors from 2006 to 2012. The EU cooperation in this sector has also been increasing in quality and quantity over the past 2 years, with EUR 42,000,000 committed in 2011 and 2012 alone, as part of a sector wide approach, including EUR 20 million for Gaza (out of which EUR 10 million from the Instrument for Stability for a desalination project).

As of July 2011, the German Development Cooperation with Palestine totalled EUR 212,000,000 commitments for the drinking water/sanitation and waste management sector. As for the French Development Agency, at that time it had granted an estimated EUR 90,000,000 to the Palestinian water sector.[8]

2.5 Donor co-ordination

Donor co-ordination is carried out with the support of the Local Aid Co-ordination Secretariat in the form of working groups which gather all donors in the sector on average once every quarter. The Water and Sanitation Sector Working Group is co-chaired by the PWA and the German Development Co-operation.

EU Member States formulated a local water sector strategy in June 2010, updated in November 2011, outlining major sector needs, sector interventions and labour division between member states.

The EU intervention in the sector is well coordinated with the EU Member States development cooperation services as well as with the World Bank and USAID[9] through regular meetings on strategic and projects issues.

3. DETAILED DESCRIPTION

3.1 Objectives

The **overall objectives** of the action are:

- contribute to the protection of water resources in the region,
- reduce health risks caused by inadequately treated wastewater released in the environment,

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6 Technical Assistance project financed by the World Bank, Agence Française de Developement and the Swedish cooperation.

7 Study financed by the Norwegian Representative office in 2011

8 Information available on respective development agencies websites as of February 2013

9 United States Agency for International Development

– adaptation to climate change through the re-use of treated wastewater [10]

The purpose (**specific objective)** is to improve wastewater management (collection and treatment) in the project area and contribution to future re-use of treated wastewater in Nablus Governorate.

3.2 Expected results and main activities

The expected results and relative key indicators of the project are the following:

- The operation of the Wastewater Treatment Plant (WWTP) is efficient and assures the compliance with the agreed effluent standards of Biological oxygen demand (BOD) 20mg/l, TSS 30 mg/l. (source: laboratory of the treatment plant)
- In case of re-using the effluent for irrigation, N_{Total} 45 mg/l will apply (source: laboratory of the treatment plant)
- 95% of the domestic water in the area benefitting from the investment measures is collected either by sewerage networks or septic tanks and treated adequately (source: customer registry)
- The treated sludge generated by the WWTP is managed in an environmentally sound manner and in a sustainable way (sources: amount of sludge processed and transported to the landfill, PA Ministry of Environmental Affairs)
- The Nablus Municipality and all villages and towns benefiting from the investment measures within the framework of the project will apply tariff systems for water and sewerage services which cover at least 80% of all costs for the operation and maintenance of their respective water supply and wastewater management infrastructure. (sources: Nablus Municipality and PWA)

The **main activities** are:

Component 1: East Nablus Sewerage project, including but not limited to (i) Wastewater Treatment Plant (WWTP) for Nablus East and surrounding villages, (ii) trunk lines and adjustment of sewerage network, (iii) house connections, (iii) industrial pre-treatment facilities, (iv) initial operational assistance (v) pilot scheme for treated wastewater re-use in agriculture, (vi) project implementation and supervision services.

Component 2: Capacity building and preparatory studies for future programmes in the water and sanitation sector.

10 *Sewerage East Nablus - Pre-appraisal mission - Minutes of Meeting*, German Financial Cooperation with the Palestinian Authority, 09/10/2012.

3.3 Risks and assumptions

The implementation of EU's support to Palestine is subject to unusual types and high levels 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.

Other risks include (i) Lack of operations and maintenance capacity and resources from beneficiaries; (ii) Lack of social acceptance of treated wastewater reuse; (iii) industrial emissions to the municipal sewer impede the operations of the WWTP

The **Assumptions** for this programme are that (i) the security situation in the West Bank remains at the current level or improves, which still enables project implementation, though at a slower pace than in a no conflict situation, (ii) the financial and technical sustainability is eased by the implementation of tariff policies mentioned above, by commercial agreements between operator and users, by the provision of technical and managerial training to the operator, (iii) the social acceptance of treated wastewater reuse is eased by awareness campaigns, sound technical design of reuse scheme, and to benefit from by on-going EU funded medium sized projects.

In line with the sector guidelines of the German Federal Ministry for Economic Cooperation and Development (BMZ) Nablus East has been appraised with the objective to achieve full coverage (100%) of costs for Operation and Maintenance (O&M). However, achieving full O&M cost recovery for the Nablus East project is a challenging target, due to the difficult economic situation in Palestine (besides, 25% of the targeted population live in the 2 refugee camps); therefore full O&M cost recovery is a medium-term objective. One year after its operational assistance has ended, i.e. three years after the commissioning of the infrastructure, the project will be evaluated by KfW. At that time an 80% cost recovery rate must have been achieved.

As for the risk of industrial emissions potentially impeding the operations of the plant for component 1, this issue was fully taken into account in the preparation of the project. The municipality developed an *Action Plan for Technically Sound Management of Industrial Wastewater* which was approved by the Municipality Council on 02 January 2013. Nablus Governorate is also committed to address the industrial emissions through the Health Safety Committee, a local inter-ministerial committee which has the mandate to impose restrictions on non-compliant industries.

3.4 Cross-cutting issues

Good governance principles, the use of local systems and empowerment of local stakeholders are embedded in the design of the activities. In addition the specific project strategy to strengthen the capacity of a local authority, the Nablus Municipality, is in line with the EU's strategy towards non state actors.

Gender mainstreaming was partially addressed in the environmental, social and climate change assessment study which was included in the feasibility study and the project. It will be a crucial and strategic aspect of the success of the reuse component of the operation as women are the leaders in this type of activity.

Environmental sustainability and protection are the main objectives of the project together with health risk mitigation, as the project is specifically aiming at reducing environmental pollution and sanitary risks from non treated wastewater and to climate change adaptation with the re-use of treated wastewater.

3.5 Stakeholders

Nablus Municipality will be in charge of the operation of the WWTP. The Municipality benefits from a 10-year experience of developing a similar plant for Nablus West water basin which is foreseen to become operational in summer 2013. By the time the Nablus East WWTP becomes operational, Nablus Municipality will have had 5 years of experience in operating a similar treatment plant. In addition, an initial Operational Assistance of two years is foreseen as an integral part of the project. During these two years the management and operational staff of the plant will be trained, guided and supervised by international experts with a strong operational background.

Civil society consultation workshops were carried out during the feasibility study stage.

4. IMPLEMENTATION ISSUES

4.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2 Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3 Implementation components and modules

4.3.1. Component 1: Contribution to Sewerage Nablus East project (Indirect centralised management with a German agency)

A part of this action with the objective *"to improve wastewater management (collection and treatment) in the project area and to contribute to future re-use of treated wastewater in Nablus Governorate"* will be implemented in indirect centralised management with KfW in accordance with Article 54(2)(c) of Financial Regulation 1605/2002. This implementation is justified because (i) equivalent contribution to the operation by KfW (EUR 19,87 million), (ii) substantial proven track-record of project implementation by KfW (which is the lead donor in the water sector) in the beneficiary country (iii) to follow principles of Paris Declaration and Accra Agenda, (iv) the successful implementation by Nablus Municipality of the construction of West Nablus WWTP, (v) implementation rationality, to avoid artificial project breakdown and administrative complexity for the Nablus Municipality and lastly (vi) better cost efficiency as a result of the simplified funding set-up and the related simplified contracted responsibilities.

The agency will be responsible for the overall administration of all activities.

The agency intends to sub-delegate the implementation of the project to the Nablus Municipality, which will apply the procurement and contracting rules of the Delegatee body (KfW). All works and supply contracts will be signed by the Nablus Municipality with ex-ante approval and financial endorsement of KfW. All payments will be made directly from KfW to the contractors.

Appropriate provisions will be included in the delegation agreement.

The change of method of implementation constitutes a substantial change except where the Commission "re-centralises" or reduces the level of budget-implementation tasks previously entrusted to the agency.

4.3.2 Component 2: Capacity building and preparatory studies for future programmes (Procurement - direct centralised management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Capacity building	Services	1	Second Trimester of 2014
Preparatory studies for future programmes	Services	1	Second Trimester of 2014

4.4 Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under ENPI shall be eligible for participating in procurement procedures under this action because it is co-funded by that instrument.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5 Indicative budget

Component	Amount in EUR thousands	Third parties contribution (indicative)
Component 1 - Indirect centralised management with KfW	18,000	N.A.
Component 2 - Direct centralised management	500	24,260
Evaluation and audit	100	N.A.
Communication and visibility	50	N.A.
Contingencies	1,350	N.A.
Totals	20,000	24,260

Component 1 already includes a provision for unforeseen works (20%), consulting services (12%) and delegation fees (5%).

The contingencies line (EUR 1.350 M) provides a provision to cover a suspension of the project or any substantial expenses which may occur from possible unrests given the local context in occupied territory.

4.6. Performance monitoring

Component 1

Once a year, in line with its own procedures and systems, the EU Representative Office will be invited to joint monitoring missions by the Delegatee Body to monitor the progress of the operation, as part of the annual monitoring exercise of all EU-funded projects. The results of this mission will be summarized by the Delegatee Body and submitted to the EU Representative Office, latest as part of the following annual report (or final report).

KfW will systematically inform the EU and invite the EU Delegation to participate to all the meetings and/or site visits held between KfW and major project stakeholders on the preparation, implementation and evaluation of this action.

Main key indicators are mentioned above in section 3.2

4.7 Evaluation and audit

External mid-term and final evaluations, covering all the activities of the action, will be carried out in accordance with European Commission procedures.

When necessary external mid-term, final or ex-post evaluation of projects component and/or global evaluation of the whole action will be conducted in accordance with European Commission procedures. When necessary external audits/ verification missions will be undertaken by the EU.

4.8 Communication and visibility

In accordance with the EU visibility guidelines for external actions, the action will incorporate information and communication activities to raise awareness of the action, the EU support and the impact of this support. Each contractor will be responsible for implementing those activities in line with the EU guidelines and in consultation with the EU office in Jerusalem. The Beneficiary/contractor shall inform the EU about upcoming communication activities and invite the EU to visibility events.

<u>ANNEX IV</u>

of the Commission Decision on the a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

Action Fiche for Palestine

1. IDENTIFICATION

Title/Number	**Support to the Delivery of Community Services in East Jerusalem** ***ENPI/2013/024-697***		
Total cost	Total estimated cost: EUR 8 million Total amount of EU budget contribution: EUR 8 million		
Aid method / Method of implementation	Project Approach — Component 1 and 2: Direct centralised management — grants — direct award. Component 3: Joint management with UN HABITAT. Component 4: Joint management with World Health Organisation.		
DAC-code	16010	Sector	Social/Welfare Services

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

By adopting a practical approach to sustain and develop the living conditions of Palestinians in East Jerusalem, the project seeks to prevent the population from being further coerced into leaving the city, thus pre-empting possibilities for future talks on the final status of East Jerusalem.

Through targeted interventions in the following sectors: (i) ensuring the resilience and protection of women, (ii) economic development, (iii) housing (and cultural heritage) and (iv) health, the project responds to the continued deterioration of socio-economic trends, characterised by insufficient public investment in community services, as well as housing and infrastructure, inadequate municipal public services, low labour force participation, limited opportunities for women, low private investment and minimal economic development.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

The economy of Palestine has been marked by the disruption of more than 40 years of occupation and conflict, during which the economic growth path has paralleled political developments. The obstacles imposed by Israel have 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, deficiencies in workers' skills 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.

Since mid-2011, the Palestinian Authority (PA) has been experiencing a serious fiscal crisis. Its liquidity problems have resulted in the PA paying its salaries and pensions with delays and in instalments in various occasions. The PA has also accumulated significant domestic payment arrears, notably to the private sector. The situation has been aggravated by the withholding on several occasions of the transfer of 'clearance revenues' by Israel for various political reasons. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the authority's inability to pay civil servants' salaries for the previous month.

In April 2013, Salam Fayyad resigned as Prime Minister of the Palestinian Authority. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas this Cabinet should make way for a consensus government by 15 August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that *"In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace*" underlining *"the urgency of renewed, structured and substantial peace efforts in 2013"* and declared that *"towards this end, it is ready to work with the US and other international partners, including within the Quartet"*. The United States' Secretary of State, Kerry has launched a new initiative to resume the peace talks recently.

2.2.1.2. National development policy

The three-year 'Palestinian Reform and Development Plan 2008-2010' (PRDP) that laid out a three-year fiscal and policy agenda for reform and development received an unprecedented level of external support, notably from the European Union (EU). Subsequently, Prime Minister Fayyad presented in August 2009 the Palestinian Authority's (PA) 'Ending Occupation, Establishing the State (Programme of the 13th Government)' plan. Based on the PRDP, it aims to build strong governmental institutions that should serve as the basis for a future independent Palestinian State within a two-year time frame.

In August 2010, the PA presented a new document, entitled ‘Homestretch to Freedom’, which reviews the achievements made in the first year of the aforementioned ‘Ending Occupation, Establishing the State’ and puts forward the plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) in Brussels, the PA presented the ‘National Development Plan’ (NDP) for the years 2011-13 to the donor community. The NDP is consistent with ‘Homestretch to Freedom’ and the PRDP and has also received donor support. The NDP identifies the Strategic Multi-sectoral Development Plan (SMDP) as the specific planning instrument for East Jerusalem. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.2. Sector context: policies and challenges

East Jerusalem has traditionally served as the focus of political, commercial, religious and cultural life for the entire Palestinian population. Since the 1967 occupation and its annexation by the Israeli Government in 1980, East Jerusalem depends de facto on the Israeli municipality for its governance and the delivery of public services, although the international community has never recognised this annexation.

Israel has followed a policy of isolating East Jerusalem from the rest of the West Bank, notably through the construction of the Separation Barrier and settlement expansion in and around the eastern parts of the city. This physical separation has severely affected the economic activities of East Jerusalem, and has weakened the social fabric of its Palestinian community. Moreover, East Jerusalem has been even more marginalised by the asymmetric delivery of public services provided by the Israeli municipality to Jerusalem’s Palestinian population. This complexity in the political reality and its resulting instability exacerbate the vulnerability of women and girls confronted with gender-based violence, violations of rights and the lack of appropriate protection services. As for the East Jerusalem private sector, it is characterised by very low levels of investment, deficiencies in workers’ skills across many sectors, high unemployment rates, the permits regime, limited access to land and building permits and segregation from the West Bank market. Recent trends in substantial land confiscation, increased house evictions and demolitions in highly populated urban neighbourhoods also affect the Palestinian population in the city. Finally, the financial crisis of the PA is severely affecting the operations of East Jerusalem’s hospitals,[1] which are bastion of Palestinian service provision in occupied East Jerusalem.

The necessary political support to encourage actions in East Jerusalem has been regularly reiterated in the Council of the European Union’s conclusions on the Middle East Peace Process since 2010. Hence, the European Union has clearly restated that it has never recognised the annexation of East Jerusalem and has

[1] In December 2012, the East Jerusalem Hospital Network (EJHN) issued an urgent appeal calling on donors to support the PA in meeting its obligation towards the East Jerusalem hospitals. .

reaffirmed its commitment to Jerusalem as the future capital of two states. Pending a final status agreement, East Jerusalem should remain an integral part of Palestine and should be maintained as a centre of life for its Palestinian population.

2.3. Lessons learnt

Lessons learnt have been drawn from an external evaluation of the EU funded programme to support the delivery of public services in East Jerusalem between 2007 and 2011.

In addition, reports from regular Results Oriented Monitoring of on-going projects are used to support identification and formulation of new actions in East Jerusalem.

The lessons learned for actions in East Jerusalem as a whole can be summarised as follows:

- While the EU will maintain its method of implementation to work through partnerships between European/International organisations and local organisations, thus creating an umbrella mechanism, it should also consider working directly with Palestinian organisations when conditions matching the highly sensitive and political context are met.

- The EU must maintain its flexible and creative approach towards means of implementation. The EU approach of working across sectors has enabled interventions to respond to various needs in East Jerusalem, ensuring relevancy and responsiveness.

- Enhancing coordination on all on-going operations in East Jerusalem in order to avoid duplication and to increase the potential for synergies between all the actions remains critical.

2.4. Complementary actions

On the basis of the matrix of donors' interventions in East Jerusalem gathered by the EU Representative Office in 2012, and in coordination with the Office of the President of the Palestinian Liberation Organisation (PLO), the EU has identified the present operation as complementary to present actions in East Jerusalem. In addition, the operation builds on synergies created with on-going EU-funded projects in the East Jerusalem programme, as well as with other EU-funded initiatives within either thematic activities or the private sector development programme. A specific action is moreover designed to complement the specific response provided through the Direct Finance Support to the Palestinian Authority (PA) in support to hospitals in East Jerusalem.

2.5. Donor coordination

Donor coordination in East Jerusalem remains a challenge, despite the political will of major donors to engage in the city. The absence of Palestinian institutions in East Jerusalem and the lack of a clear institutional framework guiding and monitoring the implementation of the Strategic Multi-sectoral Development Plan (SMDP) make donor coordination at operational level extremely difficult.

At EU level, East Jerusalem is one of the complementary sectors of the EU local strategy on development cooperation of Palestine. Yet, in the absence of an EU lead, there is limited coordination. In 2012, the EU Representative Office initiated information sharing among all donors and produced a mapping of on-going interventions (Arab donors are virtually absent). The EU Representative Office re-initiated an attempt to strengthen coordination between EU Member States at the beginning of 2013.

3. DETAILED DESCRIPTION

3.1. Objectives

The **overall objective** is to support the process of institution building and to deliver on the EU commitment to maintaining sustainable development, dignity and welfare of East Jerusalem's communities, to consolidate the possibility of reaching a future political agreement on the status of Jerusalem as the future capital of two states.[2]

The **specific objective** is to improve the socio-economic living conditions of the Palestinian population living in East Jerusalem, in particular:

– To improve protection and advance rights of vulnerable women and girls and to enhance women's local employment opportunities (Component 1).

– To support the development of the private sector in East Jerusalem (Component 2).

– To improve living conditions of Palestinian families in the Old City (Component 3).

– To maintain quality improvement and patient safety in East Jerusalem hospitals (Component 4).

3.2. Expected results and main activities

Component 1: Gender-oriented initiative

To remedy the increasing vulnerability of women in East Jerusalem, the initiative will aim to improve protection against gender-based or domestic violence, to advance the rights of vulnerable children (particularly girls), to enhance women's entrepreneurship, and to support professional opportunities for young female artists through a multi-sectoral approach.

The main **expected results** are improved access to protection, social and professional training services for Palestinian women and girls.

Five **main activities** are envisaged under this component: i) setting up of women's empowerment groups and of mobile clinics; ii) implementation of creative

2 EU Council Conclusions, 13 December 2010 and 23 May 2011.

psychosocial services and rehabilitation of child-friendly spaces; iii) job training for young women artists; iv) training and capacity-building activities for women micro entrepreneurs; v) activities with small community-based organisations (use of sub-granting) to reach out to isolated and marginalised women.

Component 2: Support to the private sector in East Jerusalem

Only a dynamic and rapidly-growing private sector will be able to provide the jobs needed by the East Jerusalem Palestinian population to stop the migration of middle class Palestinian and of businesses from East Jerusalem to the West Bank.

The main **expected results** are a reduction of the constraints to private sector development and better access to finance.

The **main activities** will focus on technical assistance enabling access to investments, financial support to the private sector and training of human resources.

Component 3: Housing initiative

In order to improve the living conditions of Palestinian families in the Old City, the action will aim to achieve sustainable (green and inclusive) models of residential development and to enhance the Old City's functionality and services available to its residents. The action will target a historical complex that comprises 50 deteriorating houses inhabited by low-middle income and poor families (mostly elderly residents). This complex is owned by the Custody of Holy Land, thus pre-empting any ownership issue. In addition, the action will make use of an un-used space located in the same complex and turn it into a public open space, centrally located in the Old City, which will be developed in an eco-friendly operation to deliver social, urban and cultural services to the wider community.

The main **expected results** are improved living conditions for 50 families, the creation of a new Palestinian civic and commercial hub of historic value within the Old City, and the restoration of a complex rich in cultural and civic identity.

The **main activities** will focus on the rehabilitation and maintenance of a historical complex with residential units, and the capacity-building of young people to operate and manage a new multi-use space.

Component 4: Support to East Jerusalem Hospitals Network (EJHN)

In order to ensure institutionalisation of quality improvements within the hospitals, the action will grant continuity to *World Health Organisation* (WHO) support in quality, safety, governance and management of the EJH and their network, also in light of new Israeli requirements of international accreditations for hospital licensure.

The main **expected results** are improved quality and patient safety and improved hospital management.

The **main activities** will focus on technical assistance in the areas of quality improvement and patient safety, on support to structural adjustments, on building the capacity of hospital managements and operations, and on strengthening the East Jerusalem Hospitals Network coordination.

Specific qualitative and quantitative indicators will be developed for each component.

3.3. Risks and assumptions

The implementation of EU support to Palestine is subject to unusual types of risk and to high levels of risk. As in previous years, any political developments directly affect the situation in East Jerusalem and may immediately have an impact on the ability of organisations to operate and implement actions. In addition, all projects implemented in East Jerusalem, especially those requiring the import of goods, equipment and the free movement of service providers or of qualified workers, are at substantial risk from unpredictable policies on the part of Israel. Israeli policy to restrict working visas for international NGO staff members remains a risk to the operational capacity of such organisations. Consequently, the alternative option of supporting well-established Palestinian organisations directly will continue to be assessed on a case-by-case basis, although they are also at risk of undergoing political pressures, or even closure by Israeli authorities.

Despite the continued interest of international actors in providing support to communities in East Jerusalem, risks pertaining to donor fatigue and insufficient donor financing persist. In addition, in the absence of the PA in East Jerusalem, uncertainty concerning which Palestinian entity should be primarily responsible for assistance to East Jerusalem remains, increasing the risks that assistance may not be delivered in a coordinated and strategic manner. The risk can be mitigated by a unified position on the part of the donor community, and at least within the EU, on the channelling of funds targeting East Jerusalem.

3.4. Cross-cutting issues

Good governance principles are applied to the implementation mechanism and ownership on the part of Palestinian civil society (in the absence of the PA) is assured. Furthermore, good governance and the use of local systems are embedded in the design of the activities, notably in components 2 and 4, which promote high standards of financial management.

Gender equality will be promoted in every component of the action and sex-disaggregated data will be used when possible. In addition, the present action provides services vital to the social and economic rights of the Palestinian population of East Jerusalem, focusing in particular on the needs of children and women.

Environmental sustainability is a central cross-cutting issue for component 3 and environmentally-friendly business practices will be promoted through components 2 and 3.

3.5. Stakeholders

The direct beneficiary of the present action is the Palestinian population living in East Jerusalem, and particularly vulnerable women and girls, inhabitants of the Old City and the business community.

Key stakeholders remain primarily community-based organisations, local and international NGOs and international organisations serving or targeting East Jerusalem communities, and community leaders. As in previous years, the institutional capacity of the remaining East Jerusalem organisations, such as the East Jerusalem Hospitals or the Chamber of Commerce, remains fragile, and it is still important to support them.

The EU directly relates to the Office of the President of the Palestine Liberation Organisation (PLO) in matters related to the EU Programme of Support to East Jerusalem. The link with the Office of the President of the PLO and its continued commitment to East Jerusalem is critical and should be fostered. Coordination with PA Line Ministries takes place as and when most appropriate.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, concluding a financing agreement with the partner country, referred to in Article 184(2) (b) of the Financial Regulation, is not envisaged, and a financing agreement is to be concluded with the Office of the President of the Palestinian Liberation Organisation, in line with international law and agreements on the status of East Jerusalem.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 48 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Implementation components and modules

4.3.1. Component 1 — Grant: direct award (direct centralised management)

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

The **general objective** is to remedy the increasing vulnerability of women in East Jerusalem.

The **specific objectives** are:

– to enhance the protection and advance the rights of women and girls;

– to support professional opportunities and entrepreneurship for women.

The **fields of intervention** will include women's rights, protection for women and girls, access to education and recreational activities for women and girls', and access to income generating activities for women.

The main **expected results** are increased awareness and respect of women's rights, improved access to education and increased availability of recreational spaces, and an increased number of women with income.

(b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the grant may be awarded without a call for proposals to the *Heinrich Böll Stiftung*.

Under the responsibility of the authorising officer by delegation, the recourse to an award of a grant without a call for proposals is justified on the one hand because Palestine has been acknowledged to be in a 'crisis situation' as referred to in Article 190(2) Rules of Application, allowing for the use of flexible procedures in accordance with applicable provisions, and on the other hand due to the scarcity of organisations working in East Jerusalem. In order to implement this component, the *Heinrich Böll Stiftung* has been identified in view of its well-known experience in East Jerusalem, which covers both the gender expertise and the project and financial management expertise needed to ensure proper running of a multi-sector gender consortium with multiple partners.

The beneficiary of the direct grant could be modified at a later stage with regard to the results to be achieved via Component 1.

(c) Eligibility conditions

Potential applicants could be legal entities, groupings without legal personality, public bodies, international organisations, NGOs, economic actors or other type of applicant as defined in section 2.1.1. of the Practical Guide to EU External Aid Contracts (annex E3a) based on a case-by-case analysis.

(d) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are: relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 90 %.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to contact the potential direct grant beneficiary

First trimester 2014.

(g) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 01/01/2014. This exception is justified should Palestine continue to be acknowledged as being in a ‘crisis situation’.

4.3.2. *Component 2 — Grant: direct award (direct centralised management)*

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

The **general objective** is to promote private sector growth in East Jerusalem.

The **specific objectives** are:

– - to create new jobs and other forms of positive economic impact on the Palestinian population;

– - to support development and production of new and existing business enterprises.

The **fields of intervention** will include technical assistance to build corporate capacity or to develop specific expertise, technical assistance to develop business plans, sub-granting to support adoption of new technology or machinery, sub-granting to increase competitivity and boost production and export potential.

The main **expected results** are increased growth in sales, exports, job creation, and attraction of investment in capital to the city.

(b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the grant may be awarded without a call for proposals to the *Palestinian Investment Fund (PIF).*

Under the responsibility of the authorising officer by delegation, the recourse to an award of a grant without a call for proposals is justified on the one hand because Palestine has been acknowledged to be in a ‘crisis situation’ as referred to in Article 190(2) Rules of Application, allowing for the use of flexible procedures in accordance with applicable provisions, and on the other hand due to the scarcity of organisations involved in private sector development in East Jerusalem. The complexity and volatility of the political situation, combined with the impact of Israeli laws on Palestinian businesses in East Jerusalem, are strong deterrents to foreign investment. In addition, the complexity of the banking system, with Palestinian banks not being in a position to issue loans for the East Jerusalem area, further hampers the development of the private sector. In late 2012, the Palestinian Investment Fund developed a strategy to support private sector development in East Jerusalem and now possesses a unique capacity to intervene in this sector. It has the necessary technical expertise to support business development and has already undertaken a pre-assessment of the private sector situation.

The beneficiary of the direct grant could be modified at a later stage with regard to the results to be achieved via Component 2.

(c) Eligibility conditions

Potential applicants could be legal entities, groupings without legal personality, public bodies, international organisations, NGOs, economic actors or other type of applicant as defined in section 2.1.1. of the Practical Guide to EU External Aid Contracts (annex E3a) based on a case-by-case analysis.

(d) Essential selection and award criteria.

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are the relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 100 %.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to contact the potential direct grant beneficiary

First trimester 2014.

(g) Exception to the non-retroactivity of costs.

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 01/01/2014. This exception is justified should Palestine continue to be acknowledged as being in a ‘crisis situation’.

4.3.3. Component 3 — Joint management with an international organisation

A part of this action with the objective of improving the living conditions of Palestinians families in the Old City of Jerusalem and enhancing the Palestinian cultural and civic identity will be implemented in joint management with UN HABITAT. This implementation is justified as over the past three years, UN

HABITAT has become increasingly involved in the urban planning and housing sectors in East Jerusalem, acting as the coordinating body for most initiatives in these sectors. The organisation always works with local partners, thus ensuring local ownership in its actions, and its UN status is crucial in these extremely sensitive sectors. Joint management with this international organisation in accordance with Article 53d of Financial Regulation 1605/2002 is possible because the organisation is bound by a long-term framework agreement (FAFA). The project is elaborated jointly between the organisation and the Commission. UN HABITAT will work in partnership with Associazione di Terra Santa and Al-Quds University.

The international organisation will be responsible for the whole implementation, and particularly for the tender procedures and for securing required authorisations with all stakeholders involved.

The change of method of implementation constitutes a substantial change, except where the Commission 're-centralises' or reduces the level of budget-implementation tasks previously entrusted to the international organisation.

4.3.4. Component 4 — Joint management with an international organisation

The part of this action with the objective of supporting East Jerusalem Hospitals in the process of Joint Commission International (JCI) accreditation will be implemented in joint management with WHO. This attribution is justified as over the past six years, WHO has been actively involved in supporting the East Jerusalem Hospitals Network (EJHN) and is the co-chair of the Health Working Group of donor coordination. WHO has demonstrated that it has adequate capacity for proper management throughout the implementation of different Contribution Agreements with the EU. Joint management with this international organisation in accordance with Article 53d of Financial Regulation 1605/2002 is possible because the organisation is bound by a long-term framework agreement (FAFA). The project has been developed jointly by the WHO and the Commission.

The international organisation will be responsible for all budget implementation tasks.

The change of method of implementation constitutes a substantial change except where the Commission 're-centralises' or reduces the level of budget-implementation tasks previously entrusted to the international organisation.

4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under the European Neighbourhood and Partnership Instrument shall be eligible for participating in procurement procedures under this action because it is co-funded by that instrument.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5. Indicative budget

Module	Amount in EUR thousands	Third party contribution
4.3.1. — Component 1 — Direct grant 'Gender-oriented Initiative' (direct centralised)	3 000	0
4.3.2. — Component 2 — Direct grant 'Support to the private sector in East Jerusalem' (direct centralised)	1 900	0
4.3.3. — Component 3 — Joint management with UN HABITAT	2 500	0
4.3.4. — Component 4 — Joint management with WHO	500	0
4.7. — Evaluation and audit	50	0
4.8. — Communication and visibility	30	0
Contingencies	20	0
Totals	8 000	0

4.6. Performance monitoring

The project will be monitored by the Beneficiaries according to relevant indicators of performance, including gender-disaggregated data. The choice of key progress indicators will form part of the project formulation process and each action will be supported by a logical framework, including objectively verifiable indicators to evaluate each stage's level of achievement. In case of non-availability of existing information on baseline values necessary to establish relevant indicators, the projects could be designed in such a way that the baseline is established during the first months of implementation and target values adapted accordingly.

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

4.7. Evaluation and audit

Grants agreements under direct centralised management will include at least one external audit and an external final evaluation. If appropriate, a global evaluation of the whole action will be conducted in accordance with European Commission procedures. When necessary, external audits/verification missions of specific projects will be undertaken by the EU.

4.8. Communication and visibility

If appropriate, the Commission will carry out information and communications activities (via service providers) to raise awareness on the project, on EU support and policy in East Jerusalem and on the impact of this support.

Within each of the project's components, actions will be implemented in line with the EU visibility guidelines for external actions, in consultation with the EU office in Jerusalem. The Beneficiary/contractor shall inform the EU about upcoming communication activities and invite the EU to visibility events. Considering the sensitive situation of East Jerusalem and in order not to jeopardise the implementation of activities, the implementation of the EU visibility guidelines for external actions may require adaptation on a case-by-case basis.