

Action Fiche for West Bank and Gaza Strip

1. IDENTIFICATION

Title/Number	Support to Private Sector and Capacity Building to institutions related to the Economy		
Total cost	EU Contribution: EUR 11,000,000		
Aid method / Method of implementation	Project approach – centralised (direct) management and joint management through an administration agreement with the World Bank		
DAC-code	33110 32130	Sector Sector	Trade policy and administrative management Small and Medium-Sized Enterprise (SME) development

2. RATIONALE

2.1. Sector context

The economy of the West Bank and the Gaza Strip (WBG) is currently recording significant economic growth rates, with the overall real GDP growth for 2010 projected by the International Monetary Fund (IMF) at 8%. This growth is driven to a large extent by the significant amounts of aid by the international community. Nevertheless, the economic conditions differ to a large extent between the West Bank and Gaza. The economic revival in the West Bank results from the combination of external financial assistance and the results of the Palestinian Authority's (PA) reform programme. The numerous obstacles imposed on the West Bank economy by Israel are without doubt a major impediment for the private sector to contribute more to economic growth in spite of the relative easing of certain restrictions by the Government of Israel.

Although the private sector has proved remarkably adaptable, the Gazan economy nearly collapsed as a result of the strict blockade imposed by The Government of Israel since Hamas took over in June 2007 and the "Cast Lead" military operation. The estimated 16% GDP growth in the first half of 2010 (compared to the first half of 2009), essentially reflects an expansion from a very low base – in fact, Gaza's output per capita is today only 60% of its 1994 levels. It is too early to say whether the decision of the Government of Israel to ease the blockade has had any material effects.

Growth and investment appear to be increasing mostly in trade/consumer services, as well as in real estate and construction, with only small increases in manufacturing, tourism or agriculture, which are the sectors most affected by restrictions by the Government of Israel.

Growth can only be sustainable if it is driven by the private sector. This will require Israel to ease the restrictions imposed on the Palestinian economy, which preclude private businesses from operating normally, significantly increase their costs, deter them from investing, isolate them from potential markets and disconnect them from basic corporate learning mechanisms. Despite this, there exist a number of areas where the intervention of the PA and/or the donor community can help minimise the

constraints to private sector development and increase private investment – these include inter alia: improvements in the business enabling environment; support to the key institutions developing trade, including capacity-building in the field of trade regulation and trade policy. In addition, significant efforts remain to be undertaken to improve access to finance, product quality, develop new products, establish contacts in new markets, increase productivity and reduce costs.

The PA's Ministry of National Economy has made private sector development a priority and has engaged in a donor's consultation to design a far-reaching strategy. Private sector role in overcoming the crisis in Gaza is reflected in its Gaza Early Recovery and Reconstruction Plan (GERRP), with its comprehensive strategy for economic, social and physical reconstruction.

In addition, the PA is seeking observership status in the World Trade Organisation (WTO) General Council and full membership in the near future in order to support development of the Palestinian private sector and its preparations for statehood. Further integration of the PA into the multilateral trade system and ultimate accession to the WTO implies enhanced international Quality Standards and ability to comply with them.

2.2. Lessons learnt

In its last report to the Ad Hoc Liaison Committee (21 September 2010), the World Bank (WB) underlined the key role that the private sector needs to play in the development of the West Bank and Gaza (WBG), and recommends that private sector development be a priority area of intervention.

The EU has a significant experience in the area of private sector development and trade in WBG, notably in the areas of access to finance (i.e. European-Palestinian Credit Guarantee Fund - EPCGF), support to small and medium enterprises (SMEs) (i.e. Facility for New Market Development - FNMD), capacity building for institutions related to the private sector (i.e. assistance to Palestine Standards Institute (PSI) and to the Ministry of National Economy), and trade-related issues (i.e. Trade Diversification Programme). Moreover, the EU has had a key role in the PA's efforts to revive the private sector in Gaza after Operation "Cast Lead" by supporting the aforementioned GERRP's main initiative to date: Private Sector Reconstruction in Gaza (PSRG) programme.

During the implementation of the above PSRG (still ongoing), it became apparent that a number of beneficiaries would not have resumed economic activity if they had not received financial support from the programme. PSRG has acted as a risk-sharing facility that has helped businesses invest in conditions in which they would not invest otherwise. In this context, the EU intends to expand PSRG to other categories of beneficiaries in the Gaza Strip and to establish a programme, which builds on the PSRG experience, to support businesses in the West Bank.

The successful experience of previous and ongoing initiatives confirms that assistance to individual businesses should be strengthened. This is particularly pressing in the Gaza Strip, where the needs of the private sector in all areas are enormous.

With regards to assistance in the Trade area, the continued support to build the institutional capacities of the Ministry of National Economy, with special emphasis on the WTO accession agenda and integration of the Palestinian economy into the Multilateral Trading System, remains a priority for private sector development, as

well as in the PA's preparations for statehood. Besides, the positive results of the EU's assistance to the Palestine Standards Institution (PSI) suggest that such support should continue.

2.3. Complementary actions

This action is complementary to other projects of the EU supporting the Palestinian Private Sector. The EU supports the PA's PSRG programme with EUR 22,000,000. PSRG is a central element of the PA's efforts to revive the economy in the area and remains the largest initiative of direct support to the Gaza private sector since the conflict. The implementation of PSRG is still ongoing: To date, almost 600 eligible claimants out of a total of 920 have received funds amounting to around EUR 9,600,000. Moreover, the EU committed EUR 3,500,000 in 2010 to the expansion of PSRG to other categories of beneficiaries in the Gaza Strip.

The EU has contributed EUR 14,000,000 to the European-Palestinian Credit Guarantee Fund (EPCGF), which guarantees loans to SMEs through the Palestinian banking system. The EPCGF is co-financed by the EU and *Kreditanstalt für Wiederaufbau* (KfW). Under this mechanism it is envisaged to create a window with specific guarantee conditions for Gaza businesses.

The EU currently supports the private sector through projects included in 2010 committed funds:

- (1) **Trade Diversification Programme**, supports private sector with 3 focus areas:
 1. **Trade Corridors facilitation:** to promote the use of alternative cost-effective trade corridors.
 2. **National Export Strategy (NES):** to support formulation of a NES for 2011 until 2016 and to enhance international competitiveness.
 3. **Trade in Services:** to improve the institutional framework and strengthen Palestinian expertise in trade in services.
- (2) **Fund for New Market Development – Phase II:** increase business capacity to reach new markets and develop their marketing strategies (contribution to a World Bank Multi-Donor Trust Fund, jointly with UK Department for International Development - DFID).
- (3) **Support to institutional capacities of the Ministry of National Economy**, with special emphasis on capacity for policy formulation, WTO Accession agenda and integration of the Palestinian Economy into the Multi-lateral Trading System. Projects presented in this Action Fiche complement actions started with 2010 Funds.
- (4) **Technical Assistance to the PSI** - the modernisation programme for Palestinian Quality Infrastructure will complement the EU current technical assistance (EUR 1,800,000), primarily for the PSI, to be launched in 2011.

A significant amount from the **Instrument for Stability** (IfS) was allocated following the Operation Cast Lead, including EUR 13,000,000 for an Emergency Job Creation Programme. The Gaza Early Recovery and Reconstruction Plan builds on the immediate emergency contribution from the IfS.

The Joint Committee under the Interim Association Agreement adopted an EU-PA European Neighbourhood Policy "Joint Action Plan" in 2004, which includes the

promotion of a business enabling environment. The PA is a party to the EU's EuroMed Charter for Enterprise.

United States Agency for International Development (USAID) has a couple of projects providing direct support to enterprises and to the Economic Institutions. The German *Gesellschaft für Internationale Zusammenarbeit* (GIZ) and Canadian International Development Agency have assistance programmes for small and micro enterprise. The Fund for New Market Development helps companies develop comprehensive marketing and product development plans.

2.4. Donor coordination

Technical assistance will be coordinated with other donors through the Private Sector and Trade Sector Working Groups chaired by Ministry of National Economy and the World Bank. This action may be reinforced with a contribution by the Government of Japan.

The Economic Strategy Group of the EU Heads of Co-operation in Jerusalem and Ramallah has prepared a response strategy to guide the EU reply to the PA's sector strategy for private sector development under the Palestinian National Development Plan 2011-13. The Commission has been designated as the "EU lead donor" in this area. The work in preparing this has mapped the ongoing and planned activities of EU (and non-EU) donors.

3. DESCRIPTION

3.1. Objectives

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

The **specific objectives** are:

- to provide support to businesses in the West Bank affected by Israel occupation.
- to strengthen capacities at the level of firm and business service providers to promote revitalisation of the private sector in the Gaza Strip.
- to further strengthen the capacities of the Ministry of National Economy and related public institutions to better lead the integration of the Palestinian Economy in the Multilateral Trading System and the WTO Accession Programme.
- to increase competitiveness of Palestinian economy in local and export markets by ensuring manufacturing of products and provision of services of adequate quality in line with the development of standards, their effective implementation and the assessment of conformity of products and services to them.

3.2. Expected results and main activities

Component 1: Support to the Private Sector in the West Bank

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

The **main activities** will build on the PSRG programme experience and methodology (ENPI/2009/21839). One or more comprehensive databases of applicants for

financial support (hereinafter, the "databases") will be established by the PA on the basis of its own eligibility criteria. If deemed necessary, the EU could provide support to the PA in this process. The EU will: (a) verify the quality of the databases and all individual applications contained in them; (b) establish its own eligibility criteria for financial support; (c) authorise the payments to those applicants that have been deemed eligible according to both PA and EU criteria; and, (d) perform ex-post audits of the payments made, as well as verifications of the use of funds received by applicants.

Component 2 - Gaza Private Sector Revitalisation Programme

This component aims at supporting the Ministry's of National Economy "Gaza Economic Strategy". It will build on the tools and experience developed during the implementation of the above mentioned FNMD Programme (Phase 1) executed by a local service provider Development Alternatives, Inc. (DAI). The Ministry of National Economy is currently preparing with the donor community an operational action plan which may lead to the creation of a Trust Fund by the World Bank.

The main **expected results** are: a) businesses' internal capacities strengthened; b) businesses have developed or up-graded their products; c) businesses have reached new markets; d) Business Service Providers and Federations/Unions have developed capacities to provide effective services to their members. The **main activities** to be funded under this component could include, among others, technical assistance, training, and market research.

Component 3: Capacity Building for institutions related to the Economy

– Sub-component 3.1: Support to the Multi-lateral Trading System (MTS) / WTO Accession Programme - Phase 2

The main **expected result** is the development of internal expertise and capacities for policies formulation compliant with MTS and WTO requirements within the Ministry of National Economy and selected related institutions. **Main activities** envisaged are provision of technical assistance and/or equipment.

– Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure

The main **expected result** is the strengthened capacities of the PSI with as **main activities** the provision of laboratory equipment and limited refurbishment of testing laboratories (electrical and electronics test laboratory; mechanical, hydraulics and materials laboratory; and construction material laboratory) as well as for metrology laboratories (industrial and legal metrology).

3.3. Risks and assumptions

EU's support to WBG is subject to unusual types and high levels of risk: those inherent in the continued Israeli occupation of the West Bank and the ongoing separation between the West Bank and Gaza, violent conflict between Palestinians and Israeli, renewal of violent conflict between Palestinian factions. In addition all projects requiring the import of goods, equipment and the free movement of service providers are at substantial risk from unpredictable policies by Israel. All actions under this special measure might be hampered by any additional restrictions imposed by the Israeli Government, for example, on the delivery of goods into the Gaza Strip or on financial transactions. A fall in the level of donors financing is also a potential additional risk.

Activities are based on the full co-operation with the Palestinian Authority. For Component 1 in particular, the role of the PA is central in the identification of beneficiaries, of eligible expenditure and timing of payments. For Component 3.2 the successful launch and implementation of the preceding technical assistance activity is essential.

3.4. Cross-cutting Issues

Environmental sustainability is a central cross-cutting issue. Palestinian enterprises are typically small, using very old technology. This project can support access to cleaner technologies. They cannot be competitive internationally if they do not conform to international environmental standards. Support to PSI and WTO accession will specifically target issues of necessary standards and certifications. Projects will include an environmental assessment criterion.

Good governance principles and the use of local systems are embedded in the design. The focus on control and audit promotes high standards of public financial management. The Ministry of National Economy will be supported in its development agenda and particular attention will be given to improved public-private sector dialogue and the involvement of women in key positions.

3.5. Stakeholders

The direct beneficiaries are businesses in the West Bank affected by Israel occupation, businesses in Gaza, SMEs, the PSI and the Ministry of National

Economy and related institutions. All were extensively consulted during the identification of the above interventions. Implementation will be in full partnership the Ministry of National Economy and other Ministries, Departments and Agencies. The broad representation of stakeholders in the Steering Committees and the transparent management aims at mitigating these risks.

All actions respond to the Palestinian Reform and Development Plan (PRDP) 2008-10 strategy and the programme of the 13th Government (the Prime Minister's "two year plan"), including the "Palestine: Moving Forward" document. Gaza related activities will align to the PA Gaza Economic Strategy.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

A Financing Agreement will be concluded between the European Union represented by the Commission and the relevant authority of the PA.

Direct centralised management will be applied for components 1 and component 3.

Component 2 will be implemented through centralised management or joint management by signing an Administration Agreement with World Bank in accordance with Article 53d of the Financial Regulation. The international organisation complies with the criteria provided for in the applicable Financial Regulation.

Component 1: Support to the Private Sector in the West Bank

Financial support to eligible applicants under this component will be delivered through the mechanisms developed under the ongoing PSRG programme (ENPI/2009/21839).

Component 2 - Gaza Private Sector Revitalisation Programme

In view of the ongoing volatile situation in Gaza and the current preparation stage of the operational action plan to implement the Gaza strategy a Trust Fund managed by the World Bank would be the preferred management mode for this component by:

- Joint management through the signature of an Administration Agreement with the World Bank - integration of a Gaza specific window in the EU - DFID - WB Trust Fund for the implementation of FNMD II.

It is however prudent given the above mentioned constraints to keep the direct centralised management option available as follows:

- Service contract with the local implementing partner Development Alternatives Inc. (DAI), which given its excellent performance in the FNMD Phase I and its unique technical position in the sector and the field is well suited to provide this service.

The decision on the management mode will be made on the basis of the situation in Gaza and progress of the operational action plan, and will be included in the Financing Agreement.

Component 3: Capacity Building for institutions related to the Economy

- ***Sub-component 3.1: Support to the MTS / WTO Accession Programme - Phase 2***

The WTO support programme will be centrally managed through service and/or supply contracts.

– *Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure*

The direct centralised management mode will be used through supply and grant contracts.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by Regulation (EC) No 1638/2006. Further extensions of this participation to other natural or legal persons by the relevant authorising officer shall be subject to the conditions provided for in article 21(7) of the above mentioned Regulation.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to Contract Procedures for EU External Actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget of the European Union. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 90% of the total accepted costs of the Action. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget.

For component 2:

- All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.3. Indicative budget and calendar

The duration of this programme is estimated at 66 months after signature of the Financing Agreement, including an operational phase of 42 months and a closure phase of 24 months.

The indicative breakdown of the overall budget is as follows:

Component	Method of Implementation / Type of contract	Amount (EUR)
Component 1 - Support to the Private Sector in the West Bank	Direct centralised management	5,000,000
Component 2 - Gaza Private Sector Revitalisation Programme	Direct centralised management through a service contract, or Joint management through an Administration Agreement with the World Bank	2,000,000
Component 3- Capacity Building to institutions related to the Economy		
Subcomponent 3.1: Support to the MTS / WTO Accession Programme - Phase 2	Direct centralised management Mainly Service and supply contracts	1,000,000
Sub-component 3.2: Modernisation Programme for Palestinian Quality Infrastructure	Direct centralised management. Mainly Supply and grant contracts	2,700,000
Audit, evaluation, visibility and TA associated with the programme	Direct centralised management Service contracts	150,000
Contingencies		150,000
TOTAL		11,000,000

4.4. Performance monitoring

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

For Component 1, comprehensive monitoring, verification, control and audit (including ex-ante verifications) systems of the use of EU funds and the effectiveness of the support will be established. A uniform financial reporting system will provide detailed information on operations. 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.

For Components 2 and 3, six-monthly monitoring report will show progress against indicators in the logical frameworks be included in each contract.

4.5. Evaluation and audit

An external final evaluation, covering all the activities of the action, will be carried out in accordance with European Commission procedures. Where appropriate, external audits of specific projects will be undertaken.

4.6. Communication and visibility

The action will follow the visibility guidelines of the European Commission. Each contractor will be responsible for implementing those guidelines in line with the relevant templates.