

**Action Fiche for West Bank and Gaza Strip**

**1. IDENTIFICATION**

|                                       |   |        |                 |
|---------------------------------------|---|--------|-----------------|
| Title/Number                          | <b>PEGASE: Private Sector Development</b><br>CRIS: 2010/22476   |        |                 |
| Total cost                            | EU Contribution: EUR11 million.   |        |                 |
| Aid method / Method of implementation | Project approach – centralised management with the exception of component 2 “Palestinian Market Development Programme” to be implemented through indirect centralised management with the UK Department for International Development (DfID). |        |                 |
| DAC-code                              | 32130   | Sector | SME development |

**2. RATIONALE**

**2.1. Sector context**

Economic growth in 2009 picked up significantly in the West Bank, but conditions in Gaza remain difficult. The Palestinian Authority (PA) has continued to build a solid track record in institution-building and economic and security reforms, supported by generous aid and Israel relaxed some restrictions on movement and access in the West Bank. However, there has been no additional significant easing of the West Bank’s restrictions so far in 2010, and economic activity in Gaza remains severely constrained by the persisting blockade. Real GDP growth in the West Bank and Gaza (WBG) is estimated at 6.8% for 2009, consisting of 8.5% growth in the West Bank and 1% in Gaza.

The Palestinian private sector is dominated by micro, small and medium-sized enterprises.

There have been industrial sectors that have proven resilient, as well as new services sectors that have started to develop on the back of the relatively high level of Palestinian education and the PA's strategic location in the Middle East, and adjacent to the region's richest economy.

In Gaza the export sector in particular has been all but obliterated by a combination of the impact of “Operation Cast Lead” and the commercial blockade imposed by Israel since June 2007. Although a very limited amount of economic activity has restarted as a result of coping mechanisms, including smuggling, and cash-for-work programmes (for which the Instrument for Stability is providing significant financing), the economic situation remains disastrous. In the meantime, the PA's Gaza Early Recovery and Reconstruction Plan, provides a comprehensive strategy for economic, social and physical reconstruction, to which the EU contributed in 2009 and undertook in its annual programme of that year to envisage further contributions to the implementation of the PA's Gaza Early Recovery and Reconstruction Plan in 2010.

Following thorough co-ordination with the PA and extensive consultations with the Member States, other major donors and, to some extent, with civil society, private sector development has been identified as a priority sector for the EU's 2010 programme.

## **2.2. Lessons learnt**

The delivery mechanism for the Gaza Early Recovery Programme will closely mirror the experience of the Commission's EUR 22 million PEGASE Private Sector Reconstruction in Gaza programme in 2009, which itself was based on the PEGASE Direct Financial Support operations launched in February 2008, in particular the system used for paying arrears to the private sector. Activities will be carried out in full co-ordination with the relevant Palestinian stakeholders, in particular the Prime Minister's Office, the Ministry of Finance, Ministry of National Economy and the Palestinian banks. The elaboration of all rules and regulations for the PSRG (Private Sector Reconstruction in Gaza) has proved quite a lengthy process. On the other hand, the Temporary International Mechanism (TIM) and the PEGASE mechanisms have proved very successful means of operating in the highly problematic environment of the Gaza Strip. This new activity will be able to build on the defined procedures and so move to implementation more quickly.

The EU also has a successful on-going portfolio of activities promoting investment and supporting business membership organisations in developing access to new markets for Palestinian SMEs, in particular with positive ROM assessments of its activities to promote access to credit. The focus of this fiche, on promoting early recovery in Gaza, providing direct support for new market development, and promoting trade in services is intended to address the problem of investing in fixed assets and other capital expenditure which would strengthen the country's industrial base. Support to the Palestinian Market Development (PMD) builds on recently completed Fund for New Market Development. A lesson learned from other schemes is that an insistence of matching finance from participating firms and regular visits to firms by project staff account managers will be important for protecting against misuse of funds.

## **2.3. Complementary actions**

This action is complementary to other projects of the EU supporting the Palestinian Private Sector. The EU has contributed EUR 14 million 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 the Kreditanstalt für Wiederaufbau (KfW). Through PEGASE, the EU has also contributed EUR 22 million under the Private Sector Reconstruction in Gaza (PSRG) programme to provide immediate support to the private sector and thus take the first steps towards ensuring sustainable livelihoods in the Gaza Strip, providing financial support to enterprises affected by Operation Cast Lead in order that they may resume economic activity.

The EU supports the private sector institutional framework and the business environment through a number of interventions with the government as set out in the PEGASE - EU support for the PA Two-Year Plan for Statehood action fiche.

In Gaza, a significant allocation of funds from the Instrument for Stability (IfS) was made in the immediate aftermath of Operation Cast Lead, including EUR 13 million for an Emergency Job Creation Programme. The Gaza Early Recovery Programme (GERP) will build on the immediate emergency contribution from the IfS.

The Joint Committee established under the Interim Association Agreement has adopted a joint EU-PA "European Neighbourhood Policy Action Plan" in 2004, which includes a range of objectives including the promotion of an enabling environment for private sector development. The PA is a party to the EU's EuroMed Charter for Enterprise.

#### **2.4. Donor co-ordination**

High level international donor co-ordination takes place at the level of the Ad Hoc Liaison Committee (AHLC) which last met in Madrid on 13 April 2010. At the local level donor co-ordination takes place in various fora under the Local Development Forum (LDF) and its four "Strategy Groups" (governance, economy, social and humanitarian affairs, infrastructure), each co-chaired by a different lead donor and PA Ministry. Beneath these, a number of sector working groups (SWG) have been established, which are more operational fora for co-ordination and alignment of donor activities for the active stakeholders in each sector.

The Economic Strategy Group, co-chaired by the Ministry of Finance and the World Bank, is the operational forum for strategic PA-donor co-ordination in the global field of economic development.

More specifically, enhanced and targeted technical assistance will be co-ordinated with other donors through the Economic Strategy Group's Private Sector Development and Trade Sector Working Group EU Heads of Co-operation in Jerusalem and Ramallah are currently preparing a response strategy to guide the EU response to the PA's sector strategy for private sector development under the Palestinian National Plan 2011-13. The Commission has been designated as representing the EU as "lead donor" in this area. The work in preparing this has mapped the on-going and planned activities of EU (and non-EU) donors. Germany, the World Bank and US have on-going activities to develop a coherent legal and regulatory framework for enterprise while Finland and Canada plan to engage in this area. Germany and Sweden have on-going activities to strengthen private sector organizations and promote public-private dialogue. Canada also plans to engage in this area. The US plans additional support for improved border crossing infrastructure and management.

### **3. DESCRIPTION**

#### **3.1. Objectives**

The overall objective of this action is to promote sustainable, job-creating economic growth for the PA.

The specific objectives are to:

- Promote early recovery of the private sector in the Gaza Strip;

- Develop enhanced enterprise capabilities, innovation and competitiveness of Palestinian companies and economic sectors;
- Promote diversification of trade relations in both goods and services.

Support for early recovery of the private sector in the Gaza Strip will enhance results achieved under the PSRG and move beyond its scope to address economic losses incurred by enterprises, either as a consequence of the Operation Cast Lead or due to the prolonged siege. Some damaged sectors, such as agriculture, have not previously been targeted with EU support. This sector was explicitly mentioned in the Final report of the Damage Assessment and Needs Identification Mission in the Gaza Strip, launched by the Commission in 2009 in the aftermath of "Operation Cast Lead". The programme will provide businesses with financial support to assist the damaged enterprises to be productive again. This action will directly contribute towards sustaining and providing new employment and will help in ensuring a source of income for currently unemployed and vulnerable workers.

The easy access to Israel's markets that existed before the Intifada is no longer available to Palestinian businesses. To be successful, businesses need to develop new markets and new or improved quality products. With access restrictions as they are, few businesses are prepared to invest in an uncertain future. The Palestinian New Market Development Fund addresses this problem by reducing that risk through sharing the cost of such investments to improve their competitiveness and compete in new markets.

### **3.2. Expected results and main activities**

#### *Component 1: Gaza Early Recovery Programme (specific objective 1)*

The main expected result of this action is that damaged companies from the Gaza Strip will be able to re-launch their activity. Eligible applicants will include businesses which have received support under the EU's 2009 programme and have achieved good sustainability potential but need further funding to secure previous results.

The programme will also target businesses which have not received support under the EU's 2009 programme, e.g. in the agricultural sector, and are able to initiate their recovery through reconstruction and replacement of damaged capital equipment or through repair of damaged buildings and equipment, with a view to making them operative again quickly. In addition, companies which have suffered from the commercial blockade of Gaza since June 2007 but which were not directly physically affected by Operation Cast Lead will also be eligible.

#### *Component 2: Palestinian New Market Development (specific objective 2)*

The PMD project will consist of three areas of intervention as described below.

#### **•1: Direct assistance to firms**

##### 1.1: Matching Grant Provision

The PMD project will provide targeted assistance in the form of matching grants to help private sector firms access new markets and/or develop new products. The project will share the financial risk associated with innovation and promote replication of successful practices in order to encourage and stimulate diversification into new markets, products and processes.

• **2: Assistance to strengthen market systems**

- 2.1: Strengthening Business Development Service Providers (BDSs)

This intervention aims to assist companies identify gaps in their internal management processes, product and market development and encourage them to use BDSs to provide the necessary knowledge and technologies. The project will also work with BDSs to illustrate to them the value of upgrading their services and marketing them effectively. The overall aim is to facilitate the transaction between the firms and BDSs who could then be directed to apply for matching grants under the direct assistance to firms' intervention.

The PMD project will facilitate the provision of specialized and customized training to the currently weak ecosystem of BDS providers in West Bank and Gaza to strengthen their service quality and marketing capacity.

- 2.2: Strategic Interventions within Industry Value Chains

Activities will aim to address issues within existing industry value chains that may be cross-sector. The interventions will be based on diagnosis, research and analysis of the underlying cause of market failure following up on information gathered from matching grant scheme applications. The likely outcomes of the interventions will be to (i) identify un-addressed market failure in sub-sectors, i.e. packaging for food products; (ii) identify the critical issues to improve the situation, and (iii) design the interventions accordingly.

- 2.3: Building Diaspora linkages and investment opportunities

Activities will support the development of better market and investment opportunities for Palestinian businesses – both domestically and internationally. The focus will be on strengthening the engagement of investors with the local businesses to create further job opportunities, the Palestinian Diaspora. Interventions will help firms build international networks, facilitate B2B (business to business) through linkages with firms abroad.

*Component 3: Trade diversification programme (specific objective 3)*

The project will lead to the following results:

- An improved policy framework to support the development and competitiveness of the export sectors and increased capacity of private and public institutions to support and stimulate exports through the provision of relevant and accessible trade support services;

- Lead export and import products and specific destinations are identified;
- Required documents, specifications and standards are identified in order to access pre-determined markets for specific products;
- More Palestinian services have exported reaching regional and international markets by improving sector export performance and competitiveness;
- Palestinian public and private organizations take a more strategic approach to supporting export of services;
- Palestinian public-private sector partnership mechanisms are strengthened with increased networking and expanded outreach.

The main activities to achieve the improved policy framework will be the preparation of a national export strategy document and establishment of an operational National Export Council. In order to identify immediate enhanced foreign trade possibilities for specific products and destinations, activities to be undertaken will build on the results and achievements of the first phase of the Trade Corridors Facilitation Project (TCFP), which was concluded in October 2009, implemented by the Palestine Trade Centre in partnership with the Palestinian Shippers' Council (PSC), and funded by the EU. In the services sector, market opportunities for export of services from Palestine will be identified through specialized advice and research. A Services Road Map will be developed, incorporating the identification of market niches, trade barriers and regulatory framework recommendations.

In the event of political, security or other significant changes on the ground, in particular as regards access to and the Palestinian Authority's effective control over the Gaza Strip, the objectives, expected results and main activities as well as the budget and calendar described in this Action may be modified or added to, after agreement by the Authorising Officer and if necessary by the Commission, by means of concluding a rider to the Financing Agreement between the European Union and the PA referred to in part 4.1 below and always subject to the use of applicable methods of implementation and procurement and grant award procedures as set out, *inter alia* in the Practical Guide to Contract Procedures for EU External Actions

### **3.3. Risks and assumptions**

The pursuit of the EU's strategy in the occupied Palestinian territory is subject to unusual types and unusually high levels of risk. The most notable assumptions include: continuing occupation of the West Bank; continuing blockade of the Gaza Strip; failure to achieve reconciliation between the Palestinian factions; failure of Hamas to accept the Quartet principles. The main risks include a renewal of violent conflict between Palestinians and Israel, and 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.

Even if the main political risks to the strategy do not materialise, there are a number of other risks, of a more usual nature, to be taken into account, in particular given the

continuing high level of dependency on donor financing, a fall in the level of such financing remains a risk.

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. On the other hand, if the Agreement on Movement and Access is implemented, this programme could be a powerful instrument at the disposal of the PA for the construction of a Palestinian state based on peace and prosperity and, in the case of the Gaza Early Recovery Programme, a potential instrument for governments of the EU to deploy targeted resources contributing to the successful recovery of the Gaza economy.

### **3.4. Crosscutting Issues**

Environmental sustainability is a central cross-cutting issue. Palestinian enterprises are typically small, using very old technology. This project can support access to new, more efficient and cleaner technologies in international markets. The enterprises cannot be competitive internationally if they do not conform to international environmental standards. Agribusinesses in the West Bank and Gaza have particular potential to market products internationally as organic. The PNMDF could help them learn about the necessary standards and certifications required. Both funds in the facility will include an environmental assessment criterion. The monitoring and evaluation unit will assess the environmental impact and suggest measures to strengthen performance where appropriate.

Also based on the experience of the EPCGF, environmental and gender issues are better addressed at the decision-making stage on providing direct support to firms, and through this can, for example, promote business start-ups by female entrepreneurs and the employment of more women by SMEs.

Good governance principles and the use of local systems are applied in the implementation mechanisms, in particular through the full ownership of the GERP programme by the PA. The specific attention given to control and audit helps to promote high standards of public financial management in the PA more generally. The Ministry of National Economy is included in the Steering Committee of the PNMDF and will be supported in its development of trade negotiation capacity through the attention given to improved public-private sector dialogue under the trade diversification project.

### **3.5. Stakeholders**

The direct beneficiaries of this programme are businesses affected by Operation Cast Lead and the commercial blockade of Gaza, SMEs with plans for expansion or potential to export, and the Palestinian Trade Centre.

The programme will be implemented in close co-operation and full partnership with the Prime Minister's Office, the Ministry of Finance, the Ministry of National Economy and the technical Ministries and other Departments and Agencies of the PA.

Also for the other components of this fiche key partners will be the Ministry of National Economy, the Palestinian Trade Centre, the Palestinian Shippers' Council and SMEs. All the above-mentioned institutions have been consulted in the programming process, in particular but not limited to the formal programming discussions held under the auspices of the Minister of Planning and Administrative Development in January 2010.

All actions foreseen respond to needs expressed by the PA in the PRDP 2008-10 and the programme of the 13<sup>th</sup> Government (the Prime Minister's "two year plan") and, in particular, the PA's statements of its 2010 priorities outlined in its document "Palestine: Moving Forward", which sets the stage for the transition from the PRDP to the Palestinian National Plan 2011-13.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Method of implementation**

With the exception of component 2, the project will be implemented through centralised management. A Financing Agreement will be concluded between the Commission and the Ministry of Finance of the PA.

Component 2, the Palestinian Market Development Fund, will be implemented through Indirect Centralised Management by the signature of a Delegation Agreement with the UK Department for International Development (DfID) in accordance with Article 54(2)(c) of the Financial Regulation 1605/2002 . DfID has the required experience and capacity, having successfully managed, together with the World Bank, a pilot project in this area.

DFID will be fully entrusted and responsible for the implementation of the programme, including procurements of services. DFID will procure an overall independent implementer for the project as well as a separate entity for monitoring and evaluation through competitive tendering process. DFID will be solely responsible for verification and approval of all payments.

##### **4.2. Procurement and grant award procedures**

###### 1) Contracts

With the exception of component 2, all contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 21(7) of the ENPI 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. 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%. Full financing may only be applied in accordance with Article 192 of the Financial Regulation if full funding is essential for the action to be carried out.
  - Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 130 of the Financial Regulation.
  - The trade diversification project will be implemented through a direct grant with the Palestinian Trade Centre, given its unique responsibility and capacity in this area and the previously successful activities on developing alternative trade corridors through a direct grant under earlier programmes in accordance with Article 168.1(f) of the Implementing Regulations.
- 3) For that part of the project to be implemented under indirect centralised management the rules and procedures of DfID will apply.

#### 4.3. Budget and calendar

The maximum contribution to the beneficiaries of this programme is EUR 11 million.

The duration of this programme is estimated at 96 months after signature of the Financing Agreement, including an operational phase of 84 months and a closure phase of 12 months.

The indicative breakdown of the overall budget is as follows:

|  |                       |
|--|-----------------------|
| Component 1 :GERP support  | EUR 3.5 million       |
| Component 2:Palestinian Facility for New Market Development        | EUR 3.5 million       |
| Component 3 :Trade diversification                                 | EUR 3 million         |
| Audit, evaluation, visibility and TA associated with the programme | EUR 1 million         |
| <b>Total</b>   | <b>EUR 11 million</b> |

#### **4.4. Performance monitoring**

For the PMD a six-monthly monitoring report will be provided showing progress against the purpose and output level indicators in the logical framework. The outputs of the six-monthly reports will be shared with the PA-donor Private Sector Development and Trade Working Group to ensure and demonstrate transparency of the way the facility is being used.

In addition the overall action will be monitored with reference to standard performance indicators in the sectors relevant to the action. An adequate day-to-day project monitoring will be carried out. The projects will be subject to both internal and external result oriented monitoring. The internal monitoring functions will be carried out by the delegation. The external monitoring will be undertaken by external monitors.

Logical frameworks including objectively verifiable indicators will be included in the contracts or contribution agreements for each activity under the programme. In particular, performance of the overall action will be monitored according to the following indicator:

- The number of new products introduced or new market accessed as a result of the project activities by participating firms at the end of the operational implementation period;
- The percentage increase in external trade by participating firms at the end of the operational implementation period;

Palestinian Central Bureau of Statistics data on the percentage increase in diversity of export markets (measured by the reduction of the Gini Coefficient of export concentration) will be reported annually. It is of course difficult to attribute improvements in this data specifically to this action.

#### **4.5. Evaluation and audit**

The Commission will organise a general ex-post audit of the programme in accordance with international standards with a view to providing the maximum level of assurance. Contributing donors will be invited to participate. In addition, any contributing donors may carry out ex-post audits of expenditures covered by their payments. Financial experts and qualified auditors will work for PEGASE which will be complemented by international or local experts. Advanced monitoring, control and audit systems are set up for all of PEGASE's activities. All donors participating in PEGASE have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

An external final evaluation, covering all the activities of the action, will also be carried out in accordance with the EU 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 EU [http://ec.europa.eu/europeaid/work/visibility/documents/communication\\_and\\_visibili](http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibili)

[ty manual en.pdf](#) and will be included in the specific PEGASE communication strategy.

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

Under the action, objective and verifiable information on the additional obstacles and costs imposed on Palestinian businesses by restrictions on access and movement will be systematically gathered. By disseminating this information, the quality of debate will be raised on how to improve Palestinian movement and access.