



Brussels, 1.9.2015
C(2015) 6147 final

COMMISSION IMPLEMENTING DECISION

of 1.9.2015

**on the Annual Action Programme 2015 part 3 in favour of Palestine¹ to be financed
from the general budget of the European Union**

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

COMMISSION IMPLEMENTING DECISION

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on the Annual Action Programme 2015 part 3 in favour of Palestine¹ to be financed from the general budget of the European Union

THE EUROPEAN COMMISSION,

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

Having regard to Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action², and in particular Article 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 1605/2002³, and in particular Article 84(2) thereof,

Whereas:

- (1) The Commission has adopted a Single Support Framework (SSF) for the period 2014-2015⁴, providing for the following priorities:
- Support to governance at local and national levels;
 - Support to the private sector and economic development;
 - Support to water and land development.

In addition to the three focal sectors, and considering that Palestine has not yet attained statehood, the SSF also envisages temporary measures in support to the Palestinian Authority through PEGASE⁵ and to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) and yearly contributions for East Jerusalem.

- (2) The Commission has adopted on 10.02.2015 a first Decision in favour of Palestine including support to PEGASE and UNRWA. The second part of the Annual Action Programme 2015 comprises the support to the three focal sectors, with a geographical focus on the Gaza Strip, and the annual contribution to the East Jerusalem programme. Through the present Decision the Commission intends to committ the remaining available funds to PEGASE, including EUR 10 million additional contribution to the payment of social allowances to the poorest families, most of which are now located in the Gaza Strip.
- (3) The situation in Palestine continues to deteriorate with no immediate prospects for the peace negotiations, the Gaza Strip living conditions worsening under all aspects and

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

² OJ L 77, 15.3.2014, p. 95.

³ OJ L 298, 26.10.2012, p. 1.

⁴ C(2014) 5128 of 25.07.2014.

⁵ *Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.*

finally the deep fiscal and economic crisis aggravated by the freeze of transfer of clearance revenues from Israel from December 2014 till April 2015.

- (4) The objectives pursued by this Annual Action Programme, to be financed under Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument⁶, are to provide urgent financial support to the Palestinian Authority to keep the delivery of basic services functioning.
- (5) The action entitled “PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2015 – Second tranche” aims at supporting the Palestinian Authority to deliver to the Palestinian population essential basic services by maintaining the functioning of the administration; at improving the economic opportunities of poor, vulnerable and isolated population; and at supporting the Palestinian Authority in reducing its budget deficit and implementing its reform agenda while increasing its transparency and accountability.
- (6) It is necessary to adopt a financing Decision, the detailed rules of which are set out in Article 94 of Commission Delegated Regulation (EU) No 1268/2012⁷.
- (7) It is necessary to allow the payment of interest due for late payment on the basis of Article 92 of Regulation (EU, Euratom) No 966/2012 and Article 111(4) of Commission Delegated Regulation (EU) No 1268/2012.
- (8) Pursuant to Article 94(4) of Commission Delegated Regulation No 1268/2012, the Commission should define changes to this Decision which are not substantial in order to ensure that any such changes can be adopted by the authorising officer responsible.
- (9) The action provided for in this Decision is in accordance with the opinion of the European Neighbourhood Instrument (ENI) Committee set up by Article 15 of the financing instrument referred to in Recital 4,

HAS DECIDED AS FOLLOWS:

Article 1

Adoption of the measure

The Annual Action Programme 2015 part 3 in favour of Palestine, as set out in the Annex, is approved:

The programme shall include the following action:

- Annex : PEGASE Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2015 – Second tranche

Article 2

Financial contribution

⁶ OJ L 77, 15.3.2014, p. 27.

⁷ Commission Delegated Regulation (EU) 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

The maximum contribution of the European Union for the implementation of the programme referred to in Article 1 is set at EUR 48 million and shall be financed from budget line 21 03 01 04 of the general budget of the European Union for 2015.

The financial contribution provided for in the first paragraph may also cover interest due for late payment.

Article 3

Implementation modalities

The section “Implementation Issues” of the Annex to this Decision sets out the elements required by Article 94(2) of Commission Delegated Regulation (EU) No 1268/2012.

Article 4

Non-substantial changes

Increases or decreases of up to EUR 10 million not exceeding 20% of the contribution set by the first paragraph of Article 2, or cumulated changes to the allocations of specific actions not exceeding 20% of that contribution, as well as extensions of the implementation period shall not be considered substantial within the meaning of Article 94(4) of Commission Delegated Regulation (EU) No 1268/2012, provided that they do not significantly affect the nature and objectives of the actions.

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

Done at Brussels, 1.9.2015

For the Commission
Johannes HAHN
Member of the Commission



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2015 Part III in favour of Palestine¹

Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2015 - Second tranche"

1. Title/basic act/ CRIS number	"PEGASE Direct Financial Support (PDFS) to the Recurrent Expenditures of the Palestinian Authority (PA) 2015 – Second tranche", CRIS number: ENI/2015/038-293, financed under the European Neighbourhood Instrument			
2. Zone benefiting from the action/location	Palestine			
3. Programming document	The Single Support Framework for 2014-15 envisages specific temporary support measures to contribute to maintaining the viability of the two-state solution.			
4. Sector of concentration/ thematic area	Temporary support measures: PEGASE Direct Financial Support (to the PA)			
5. Amounts concerned	Total estimated cost: EUR 48,000,000 Total amount of EU budget contribution: EUR 48,000,000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management			
7. DAC code(s)	16010			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	Women In Development)			
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagship	N/A			

SUMMARY

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. These cover the PEGASE² Direct Financial Support (DFS) to the PA's national budget, as well as the support to UNRWA interventions for Palestinian refugees, altogether sustaining the delivery of basic services to the entire Palestinian population.

Through PEGASE DFS, the EU has contributed substantially to the recurrent expenditure of the national budget (around EUR 1.8 billion since 2008), with systematic, predictable and unconditional contributions to the payment of PA civil servant's salaries and pensions (PEGASE DFS "Civil Servants and Pensioners" (CSP) programme); social allowances to the poorest and most vulnerable Palestinians families (Vulnerable Palestinian Families (VPF) component), and, since 2013, to health referral bills through the "East Jerusalem hospitals" (EJH) programme. Through this programme, the EU provides crucial funding to avoid the collapse of those hospitals, which are amongst the few remaining Palestinian institutions in East Jerusalem and are providing key medical services to the Palestinian population.

PEGASE DFS contributed substantially to State building as well as to social cohesion, economic and security stabilisation.

Coupled with PEGASE DFS, the EU has consistently been supporting the PA to implement certain policy reforms aiming at enhancing its fiscal sustainability and improve the accountability, integrity, and transparency of its public finance system (public finance management, revenue mobilisation and fiscal reforms such as reduction of the net lending, health medical referrals), supporting its civil service reform, as well as improving service delivery (social protection).

² Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.

In December 2013, the Court of Auditors published a report on PEGASE DFS³ where it recognised that the European External Action Service and the Commission had succeeded in implementing direct financial support to the PA in difficult circumstances. The report also concluded that the control measures put in place are robust and that there is no sign of mismanagement or diversion of funds.

While disbursement remains unconditional, PEGASE Direct Financial Support (DFS) has undergone a shift towards a 'results-oriented approach' to formalise a more structured policy dialogue, with stronger monitoring and evaluation of PA's achievements in key areas, through a Results-Oriented Framework (ROF). Both the December 2013 Court of Auditors performance audit and July 2014 external evaluation of the EU co-operation with Palestine⁴ confirmed the relevance and timeliness of this shift. The first ROF, co-signed on March 25th 2015 by the EU and the Palestinian Prime Minister will cover a 9-month pilot phase from 01.04.2015 to 31.12.2015. It will encompass six sectors, falling within two pillars, aligned to EU PEGASE DFS specific objectives as set-up in the SSF 2014-2015, namely Pillar I: fiscal consolidation and policy reforms covering (1) Macroeconomic Support; (2) Public Finance Management; and (3) Public Administration Reform; Pillar II: Service delivery covering (1) Education; (2) Health; and (3) Social protection.

1 CONTEXT

1.1 Country context

Palestine has been marked by the disruption of more than forty years of occupation, during which the economic development path and the democratisation process has paralleled political developments at regional level. After a period of sustained state-building progress and economic recovery between 2007 and 2011 (albeit largely driven by government spending, in turn, funded by aid flows), the democratic path and the economy have significantly slowed down since 2012 (no electoral process, limited institutional accountability, slowing growth, high unemployment, and large fiscal deficits).

The outlook in Palestine further deteriorated dramatically in 2014 as a result of the collapse of the Peace Process negotiations in April, the massive destruction in Gaza during "Operation Protective Edge" in July/August as well as the restrictions in the West Bank which led to the closure of Hebron for almost two months, in addition to the unrelenting restrictions imposed on Palestinian people and their economy.

The conflict and humanitarian tragedy in Gaza has made an already struggling Palestinian economy worse and put further stress on the Palestinian Authority, particularly on its fiscal situation which in 2014 already faced a deficit of USD 1.51 billion. With the reconciliation process struggling and Israel's withholding of clearance revenues from December 2014 till April 2015 as a response to the PA's request for accession to the International Criminal Court (ICC), the ongoing fiscal crisis and PA difficult governance are further exacerbated. Difficulties of the PA in

³ European Union Direct Financial Support to the PA - European Court of Auditors Special Report No 14 – 2013.

⁴ Evaluation of the European Union's Co-operation with the occupied Palestinian territory and support to the Palestinian people: http://ec.europa.eu/europeaid/sites/devco/files/evaluation-cooperation-ec-palestine-1327-main-report-201405_en.pdf.

paying salaries and bills are recurrent, putting the institutional functioning and the delivery of basic services to the Palestinian population at risk. In the Gaza Strip where the "National Consensus Government" (NCG) is not (yet) present on the ground the situation is worsened by the fact that civil servants recruited after 2007 have not received their salaries since April 2014, except one-off 'humanitarian' cash assistance.

Consequently, the PA continues to accumulate arrears to the private sector and has considerable debts to the banking sector. The total external and internal PA debt reached USD 4.98 billion in December 2014. Debt to the Pension Fund also continued to grow and stood at USD 1.799 billion. Besides, arrears to the private sector amounted to USD 695 million. In this context, health services have been greatly affected. As a result of the PA's accumulated unpaid arrears, hospitals in East Jerusalem have recurrent difficulties in paying salaries and are highly indebted to medical suppliers.

The shrinking political prospects for a viable two-state solution and the lack of intra-Palestinian reconciliation progress further increases donor's fatigue. Although approximately USD 5.4 billion were pledged at the Cairo Conference on 12 October 2014 (half of which is to be dedicated for the reconstruction of Gaza), there have been significant delays and lack of progress in the actual volume of the contributions.

In the absence of successful peace negotiations, the Palestinian economy will continue to be unsustainable and dependent on donor aid and the overall economic outlook is expected to deteriorate further.

Poverty levels remain of serious concern. The latest data from the Palestinian Central Bureau of Statistics (PCBS) indicate that, in 2011, poverty rates reached 18% in the West Bank and 39% in Gaza, with 70% of the population in Gaza being aid dependent. These figures have increased due to the 2014 hostilities in Gaza, which pushed many Gaza families into (deeper) poverty.

1.1.1 Public Policy Assessment and EU Policy Framework

In May 2014, the PA released the Palestinian National Development Plan 2014-2016 "State Building to Sovereignty". The programme builds on the previous tri-annual national plans and focuses on four key sectors: 1) economic development and employment, 2) good governance and institution building, 3) social protection and development and 4) infrastructure.

The PA released in October 2014 its "National Early Recovery and Reconstruction Plan for Gaza 2014-2017" in the aftermath of the devastating conflict of July/August 2014. The implementation of this plan, in particular with the current level of Israeli's restrictions, remains unclear.

In 2014, a total of EUR 168 million was committed from the 2014 EU budget, through PEGASE DFS, to help the PA with the payments of PA salaries/pensions, allowances for poor Palestinian families and arrears for medical referrals to East Jerusalem Hospitals. In 2015, EUR 130.0 million have been already committed (and partially disbursed) for the same purpose. With the present Decision, the total annual commitment in support to the recurrent costs of the PA in 2015 will amount to EUR 178 million.

These funds were complemented in 2014 by contributions from EU Members States, through PEGASE DFS, including: EUR 1.25 from Austria (through assigned

revenues) for social allowances; EUR 2.5 million from Finland for arrears to East Jerusalem hospitals; a total of EUR 1.5 million from Ireland for PA salaries/pensions (EUR 1 million) and social allowances (EUR 0.5 million); EUR 1 million from Luxembourg for PA salaries/pensions; EUR 3 million from the Netherlands for salaries/pensions (earmarked to the justice sector); EUR 1.8 million from Spain for social allowances and SEK 40 million (equivalent to EUR 4.3 million) from Sweden for salaries/pensions.

In 2015, the following contributions have been made to date: EUR 1.5 from Austria (through assigned revenues) for social allowances; EUR 10 million from Denmark for arrears to East Jerusalem hospitals; EUR 4 million from the Netherlands for salaries/pensions (earmarked to the justice sector).

In 2014, other donors (including EU Member States) had also provided direct financial support to the PA either directly to the PA budget or via the World Bank Trust Fund (including ILS 1.5 billion from Arab donors, ILS 0.6 billion from the World Bank Trust Fund and ILS 37 million from France).

1.1.2 Stakeholder analysis

The final beneficiary of the action will be the Palestinian population as a whole. Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the EU and based upon requests and information provided by the PA.

Key partners include the PA institutions: Ministry of Finance, the technical Ministries and other relevant Departments and Agencies of the PA.

All donors contributing to the PEGASE DFS mechanism will also be key stakeholders.

1.1.3 Priority areas for support/problem analysis

Worsening macroeconomic outlook and increased donors' dependency over 2014:

Recent years' worrisome trends in the economy (slowing growth, high unemployment, and large fiscal deficits) have continued. The outlook further deteriorated dramatically in 2014 as a result of the massive destruction in Gaza during "Operation Protective Edge" as well as restrictions in the West Bank which led to the closure of Hebron for two months. The conflict and humanitarian tragedy in Gaza has made an already struggling Palestinian economy worse and has put further stress on the fiscal situation of the Palestinian Authority.

Given the ongoing restrictions on movement and access, support to the Palestinian's national budget has been the main driver of growth. This current financing model will not be sustainable as long as there is no political horizon ending the occupation, freedom of access and movement to strengthen the private sector investments; and the current level of foreign aid is not even sufficient to maintain the status quo, without even taking into account the foreseen expansion of governmental responsibilities in Gaza following the formation of the National Consensus Government (NCG) in 2014, and the huge needs following the last conflict.

According to the International Monetary Fund (January 2015), the "economic activity contracted in 2014, following the war in Gaza in the summer. The IMF estimates that real GDP fell by nearly one percent, the first contraction since 2006, in particular declining by about 15% in Gaza but rising by 4.5% in the West Bank with

a sharp slowdown in the third quarter. Unemployment rates remain at high levels, reaching an estimated 41% in Gaza and 19% in the West Bank.

Particularly highly volatile context in 2015:

Following the failed draft resolution on the Middle East Peace Process to the United Nations Security Council on 30/12/2014, the PA signed accession documents for the International Criminal Court (ICC). In response, Israel froze the transfer of clearance of revenues from December 2014 till April 2015. After the suspension of clearance revenue transfer the PA increased its debt to domestic banks by an additional USD 300 million to cover for part of the salaries. The PA has now exhausted its borrowing capacities as allowed by the Palestinian Monetary Authority. It also further exposed the banks to the public sector. The delays of payment and/or partial payment of salaries are putting the delivery of basic services to the Palestinian population at risk – and there are also already growing signals in terms of economic slow-down following a sharp decrease of consumption.

Furthermore, on February 24th, the PA/Palestine Liberation Organisation (PLO) was found guilty in an US Court-trial (Sokolov case) over terrorism charges. The trial focused on six instances of shootings and bombings in and around Jerusalem between 2002 and 2004. The damages were set at USD 655.5 million, under a special terrorism law that provides for tripling the initial award. The PA/PLO seems confident that the appeal would reverse the Decision. Meanwhile however, the verdict could question US financial support, and the PA/PLO will be asked to put aside a substantial amount before the appeal is processed. Another recent complication comes from the request by one of the plaintiffs to add USD 400 million as retroactive interest payment. This issue is not yet solved at the date of redaction.

The IMF projected that "Real GDP in 2015 is set to rise only modestly, with a pickup in Gaza from a low base and a drop of nearly 2% in the West Bank. Medium-term growth will remain modest, unless there is an improvement in the political climate that would lead to a lifting of restrictions in the West Bank and the blockade in Gaza". But the IMF baseline scenario assumes that: (i) the political situation in Palestine will remain the same; (ii) donors will continue to provide financial support to the budget at the same level as in 2014; (iii) transfer of money generated from clearance revenues via Israel resumes; (iv) no additional allocation from the national budget to Gaza for recurrent expenditures (such as salaries, social allowances, operational costs); (v) all Gaza reconstruction costs will be covered by donors funding only. There are thus substantial downside risks to this scenario. There is no modelling of what might happen if the withholding beyond June.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Substantially worsening political and fiscal context with continued occupation, freezing of the transfer of Clearance Revenues by Israel, and potential impacts of the so-called Sokolov case, which may lead to	H	Enhanced EU dialogue with Israel, including linking EU co-operation effectiveness in Palestine directly to Israeli actions

increased instability, volatility and of a return to violence in the medium-term growing		
Lack of progress of in the reconciliation process and continued regression in democratic and social accountability, with decreased legitimacy of the PA among the Palestinian population	H	EU support to the NCG to take leadership both at the technical and political level, as well as policy dialogue and monitoring of progress in reforms. Increased support for civilian oversight
Deterioration of the status quo in Gaza with expected increased level of poverty	M/H	Enhanced EU dialogue with Israel and the NCG
Fluctuations in the exchange rate may have an impact on funding needs.	M/H	Continuous monitoring
Assumptions		
<ul style="list-style-type: none"> • The two-State solution is still the political aim supported by the EU, and the EU continues supporting the PA as part of EU support for a peaceful solution; • The PA continues to be committed to its statehood agenda and the reconciliation process moves forward; • Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions under the Occupation; • Contributions from EU Member States and other donors will be made available during the implementation period to complement the proposed funds; • Full co-operation with the PA, in particular for identification of eligible beneficiaries, scheduling of payments and identification of eligible expenditures is essential. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The PEGASE mechanism builds upon the successful experience of the Temporary International Mechanism (2006-2007) and is implemented in full co-ordination with the PA and in close co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the Palestinian Authority for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

The mid-term review of PEGASE conducted in 2009 highlighted the flexibility in planning and implementation, the highly competent and professional staff and the use of well-proven management systems while continuously innovating – which

contributed to the success of this mechanism. A final evaluation covering the period 2008-2011 confirmed these findings. A final evaluation covering the period 2011-2013 is under finalisation.

In December 2013, the Court of Auditors published a report on PEGASE DFS providing a number of recommendations. Many of these have already been addressed (e.g. using the competitive tendering for technical assistance, review of the mechanism aiming at its simplification or introducing performing indicators; establishment of a results-oriented approach – details under section 5.7).

3.2 Complementarity, synergy and donor co-ordination

This Decision will bring the total amount for PEGASE for 2015 to EUR 178 million; in addition EUR 82 million were committed to UNRWA's General Fund; and EUR 30 million are in the pipeline, for the following support priorities, geographically focused on the Gaza strip: (i) governance at local and national levels; (ii) private sector and economic development; and, (iii) water and land development; finally EUR 10 million in support to the East Jerusalem programme.

The EU already provides support through or is in the process of launching complementary capacity building activities, in line with the newly-set Results-Oriented Framework. These include: (1) *Policy Reform*: a) strengthening of the accountability, integrity, and transparency of the public finance system, by supporting 'checks and balances' aspects (tackling both the supply and the demand-side), b) domestic revenue mobilisation – through a support to the PA's Taxpayer Awareness Programme; c) support to the PA efforts in reducing the burden of net lending (ended in July 2014 – additional support could be envisaged in co-ordination with other donors); d) civil service reform; e) strengthen statistics capacities; and, f) gender budgeting. (2) *Service Delivery*: through support to the Ministry of Social Affairs. Other EU Member States provide complementary capacity building support in relation to policy reforms and service delivery (education, health).

The Palestinian Reform and Development Plan Trust Fund (PRDP-TF) is managed by the World Bank, and its main donors include the UK, France, Norway, Australia and Kuwait. The release of funds is untargeted, but conditional upon the implementation of key reforms for: a) improving the PA's fiscal sustainability; and, b) improving public financial management and accountability. Synergies between both instruments are fostered to the largest extent possible.

Synergies with UNWRA, notably in terms of Social protection, are currently under analysis.

Local donor co-ordination has been streamlined in accordance with the conclusions of the Ad-Hoc Liaison Committee (AHLC) meeting held in December 2005, following a proposal by the European Commission, the World Bank and Norway to reform the Aid Management Structures. The EU continues to play a leading role in these structures at all levels. Relevant platforms include: (i) the Fiscal Working Group (co-Chaired by the Ministry of Finance and the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (co-Chaired by the Ministry of Planning and Administrative Development and the UK/Department for International Development); (iii) the Social Protection Sector Working Group (co-chaired by the Ministry of Social Affairs and the EU); and (iv) the sub-group on Health Referrals under the Health Sector Working Group.

The EU plays a leading role in local EU Member States co-ordination. Under the framework of the EU heads of Co-operation meetings, an EU Informal Group on PEGASE DFS was set up in early 2013 and has become the main forum to jointly monitor the progress on the pilot sectors covered by the aforementioned ROF. Since 2013, increased co-ordination with other direct financial assistance donors (mainly the World Bank and the contributors to the PRDP-TF) has taken place.

3.3 Cross-cutting issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the Palestinian Authority is assured. The EU also support complementary capacity building activities focusing notably on the strengthening the public finance system, including 'checks and balances' aspects.

The actions proposed provide services vital to the social and economic rights of the Palestinian population.

The EU also intends to ensure the gender mainstreaming of the pilot Results-Oriented Framework.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this temporary EU support is to maintain the viability of the two-state solution by avoiding the fiscal collapse of the PA and sustaining basic living conditions of the whole Palestinian population.

The specific objective is to support the Palestinian national development agenda and in particular:

- (1) to support the PA to deliver to the Palestinian population essential basic services by maintaining the functioning of the administration;
- (2) to improve the economic opportunities of poor, vulnerable and isolated population; and
- (3) to support the PA in reducing its budget deficit and implementing its reform agenda while increasing the PA's transparency and accountability.

4.2 Main activities

Three categories of public expenditure are eligible for support under this action, for a total amount of EUR 48 million which follows previous Decisions committed every year from 2008 to 2014.

Component 1: Supporting Palestinian administration and services (indicative allocation: EUR 38 million)

The EU will contribute to the payment of salaries and pensions to the PA civil servants in Palestine (West Bank and Gaza Strip). The objective of this activity is to support the PA to maintain the functioning of the administration and thus deliver to the Palestinian population essential basic services. The objective of this activity is to allow the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza Strip. The regular contribution to the funding of the wages expenditure for civil servants also reinforces the PA's public finance management and public finance reform implementation.

Component 2: Supporting the Palestinian social protection system (indicative allocation: EUR 10 million)

The EU will contribute to the quarterly payment of social allowances to poor and vulnerable Palestinian families in the West Bank and, to a large extent, in the Gaza Strip through the PA's national cash transfer programme (CTP). The objective of this activity is to ensure the continued assistance to Palestinian families living in extreme poverty, who are dependent on financial aid from the PA. This activity also reinforces the reform of the social protection system and the social cohesion among Palestinians.

Component 3: Support to East Jerusalem Hospitals (indicative allocation: n/a)

The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for Palestinians. In addition to the importance to the health network, these hospitals are also a symbol of continued Palestinian presence in East Jerusalem. The financial difficulties of the PA have resulted in a situation where many of the hospital bills underwritten by the Ministry of Health, and validated by the Ministry of Finance, remain unpaid. The hospitals are therefore, and to differing degrees, themselves contributing to the worsening of the PA's financial crisis.

4.3 Intervention logic

Through the systematic, predictable and unconditional contributions to the PA's recurrent expenditures made through the PEGASE DFS mechanism, the EU is making a key contribution to avoiding the financial collapse of the PA itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so, the EU significantly contributes to maintaining the viability of the two-state solution and the PA's state-building activities, notably in terms of service delivery. The funds channelled through the PEGASE DFS mechanism thus contribute to the social cohesion and the economic and security stabilisation of Palestine. The PEGASE DFS contributions made through any of the three aforementioned components play a key role in supporting the PA to implement policy reforms aiming at enhancing its fiscal sustainability and improve the accountability, integrity, and transparency of its public finance system, as well as to improve service delivery.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Budget Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 18 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this Decision and the relevant contracts and agreements; such amendments to this Decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

Direct management will be applied for all components.

PEGASE DFS programmes will be implemented by the Commission through the Office of the European Union Representative in East Jerusalem (EUREP) in East Jerusalem, in close co-ordination with EU Member States officials and with the Palestinian Authority.

Disbursements will be made by the Commission directly to the eligible beneficiaries of the PEGASE DFS programmes detailed in Section 3.2 above, following eligibility checks and verification and control procedures by external experts and international audit firms.

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to the recurrent costs of the Palestinian Authority (<i>PEGASE DFS</i>)	Direct Financial Support	2	4 th trimester of 2015

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.5 Indicative budget

	Amount in EUR thousands	Third party contribution
Component 1: Supporting Palestinian administration and services (CSP)	38,000	N/A
Component 2: Supporting the Palestinian social protection system (VPF)	10,000	N/A
Component 3: Support to East Jerusalem hospitals (EJH)	-	N/A
Total	48,000	N/A

The aforementioned allocations are indicative and may be changed depending on the needs expressed by the PA and the funds received from other donors for specific areas covered by PEGASE DFS programmes. It is anticipated that, as in earlier years, other donors will make contributions.

Funds for the necessary technical assistance (aligned to the Results-Oriented Framework), evaluation, audit and visibility actions have already been, or will be, made available under separate Decisions (notably under the Decision 'Governance' under Annual Action Programme 2015).

5.6 Organisational set-up and responsibilities

A financing agreement will be concluded between the EU and the PA, to be implemented via Direct Management (PEGASE DFS).

The project will be implemented by the EU through the Office of the European Union Representative to the West Bank and Gaza Strip, UNRWA (EUREP), located in in East Jerusalem.

On the PA side, the leading partner in the implementation of the PEGASE DFS programme will be the Ministry of Finance in the execution of the payments to final beneficiaries, the Ministry of Social Affairs (Component 2), and Ministry of Health (Component 3).

All contracts and payments are made by the Commission on behalf of the Beneficiary.

EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including the following:

- liaise with the Ministry of Finance concerning eligible expenditures;
- organise and manage the process of validation, control, payment and audit; and,
- be responsible for paying contributions or for supporting payments to be made by individual donors.

Financial experts and qualified auditors will work for the project and will be complemented by other experts as required.

The Ministry of Finance will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources.

5.7 Performance monitoring and reporting

A comprehensive monitoring, control and audit system will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide reassurance over the use of funds, and the efficient and effective provision of support to the Palestinian Authority and population while fully protecting donor interests.

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

As from early 2013, the EU started working towards a Results-Oriented Framework (ROF) for PEGASE DFS covering both Policy Reforms and Service Delivery, under which EU donors would further co-ordinate the support (in terms of funding, technical assistance and policy dialogue). The Results-Oriented Framework is anchored within the EU process towards EU Joint Programming (expected to start in

2017). The basis has been the EU/MS Local Development Strategy (EU LDS), which defines rolling EU operational priorities and an EU/MS Division of Labour in Palestine. This includes 16 EU/MS Sector Strategy Fiches in line with the PNDP 2014-2016 and related sectors strategies. The approach is thus a consolidated EU approach, and a step towards Joint Programming. The development of such framework has also been done in close collaboration with the PA and the other direct financial assistance donors. Civil society has also been consulted during the process.

The pilot ROF will cover six of the above 16 sectors, under the respective EU leaderships in accordance with the local EU Division of Labour. As this process is anchored within the EU Joint Programming exercise, additional sectors are expected to be added to the ROF for 2016.

- (i) *Pillar I: "Fiscal consolidation and policy reforms"*: (1) Macroeconomic Support/fiscal outlook (sector led by the EU with the Ministry of Finance as counterpart); (2) Public Finance Management (sector led by the EU with the Ministry of Finance and the State Audit and administrative Central Bureau as counterparts); and, (3) Public Administration Reform (sector led by the UK with the Prime Minister's Office and the General Personnel Council as counterparts).
- (ii) *Pillar II "Service delivery"*: (1) Education (sector led Belgium with the Ministry of Education and Higher Education as counterpart); (2) Health (sector led by Italy with the Ministry of Health as counterpart); and, (3) Social protection (sector led by the EU with the Ministry of Social Affairs as counterpart).

The EU and the PA signed a Memorandum of Understanding on March 25th 2015, which includes the pilot Results-Oriented Framework and its performance monitoring and reporting set-up, for the period 01/04/2015 to 31/12/2015. A quarterly (internal) and yearly (shared with the PA) operational reporting system will thus be put in place, building notably on internal and external reviews such as reviews by the World Bank and by the International Monetary Fund (IMF) on macroeconomic issues.

5.8 Evaluation

A comprehensive evaluation report covering the first three years of implementation of the PEGASE DFS programmes for the period 2008-2011 was carried out in 2012. An evaluation covering the period 2011-2013 is under finalisation.

Mid-term evaluations will be performed every 18 months and final evaluation after a 3-year implementation period in line with the PA development planning cycle.

5.9 Audit

Financial experts and qualified auditors will be involved in the implementation of PEGASE DFS programmes, which will be complemented by Commission and EU Member States specialists and international or local experts.

Advanced monitoring, control and audit systems are set up for all of PEGASE DFS programmes. All donors contributing to PEGASE DFS programmes have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

In addition to the regular verifications and audits of eligible expenditures to identify and validate payments, annual ex-post audits of PEGASE DFS programmes will be undertaken in accordance with international standards, to provide the maximum level of assurance which will be contracted on other Decisions related to the PEGASE DFS activities. Donors will be invited to participate. Contributing donors may also carry out ex-post audits of expenditures covered by their payments.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

Progress of implementation will be communicated regularly to all stakeholders through quarterly financial and operational reports, and an operational annual report. Regular meetings are held with EU Member States in Brussels as well as locally (EU Heads of Co-operation and EU Informal Group on PEGASE DFS meetings).

6 PRE-CONDITIONS

None.

APPENDIX - INDICATIVE DISBURSEMENT SCHEDULE

PEGASE DFS 2015 Tentative Disbursement Schedule (in EURO)

PEGASE programme	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	TOTAL
1- CSP (salaries/pensions)	0.00	0.00	0.00	31.60	15.90	20.15	17.90	0.00	0.00	0.00	19.60	19.00	124.15
EC - FA ENI/2014/037-579 (leftover payment credit)				0.90									0.90
EC - FA ENI/2014/037-802				30.00	15.00	15.00	17.00						77.00
EC - FA ENI/2015/38293											19.00	19.00	38.00
1.1 CSP Sub-total EC	0.00	0.00	0.00	30.90	15.00	15.00	17.00	0.00	0.00	0.00	19.00	19.00	115.90
Netherlands 2015 (earmarked to the Justice Sector)				0.7	0.9	0.9	0.9				0.6		4.00
Sweden 2015 (SEK 40 million, pipeline, tentative)						4.25							4.25
1.2 CSP Sub-total donors	0.00	0.00	0.00	0.70	0.90	5.15	0.90	0.00	0.00	0.00	0.60	0.00	8.25
2- CPD (police/defence)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
													0.00
3- VPF (social allowances)	0.00	0.00	14.00	0.00	0.00	13.60	0.00	0.00	12.50	0.00	0.00	12.50	52.60
EC - FA ENI/2014/037-802			12.50			12.50			12.50			2.50	40.00
EC - FA ENI/2015/38293												10.00	10.00
3.1 VPF Sub-total EC	0.00	0.00	12.50	0.00	0.00	12.50	0.00	0.00	12.50	0.00	0.00	12.50	50.00
Austria 2014 (assigned revenues FA ENI/2014/037-579)			1.50										1.50
Spain 2015 - pipeline						1.00							1.00
Italy (leftovers 2010, tentative)						0.10							0.10
3.2 VPF Sub-total donors			1.50			1.10			0.00			0.00	2.60
4- EJ Hospitals	0.00	2.50	0.00	0.00	0.00	24.00	0.00	0.00	0.00	0.00	0.00	0.00	26.50
EC - FA ENI/2014/037-802						13.00							13.00
4.1 EJ Hospitals Sub-total EC	0.00	0.00	0.00	0.00	0.00	13.00	0.00	0.00	0.00	0.00	0.00	0.00	13.00
Finland 2014		2.50											2.50
Denmark 2015 (DKK 80 million)						10.00							10.00
Italy 2015 (pipeline, tentative)						1.00							1.00
4.2 EJ Hospitals Sub-total donors	0.00	2.50	0.00	0.00	0.00	11.00	0.00	0.00	0.00	0.00	0.00	0.00	13.50
GRAND TOTAL 2015	0.00	2.50	14.00	31.60	15.90	57.75	17.90	0.00	12.50	0.00	19.60	31.50	203.25

Sections highlighted in light brown indicate that the commitment is not final (data is indicative)