

ANNEX I
Action Fiche for the occupied Palestinian territory

1. IDENTIFICATION

Title/Number	PEGASE: Support to Recurrent Expenditures of the Palestinian Authority - 2011		
Total cost	EU contribution: EUR 60 million maximum		
Aid method / Method of implementation	Project approach – direct centralised management		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE

2.1. Sector context

Since its establishment in early 2008, the PEGASE mechanism provides direct financial support for the Palestinian Reform and Development Plan (PRDP). Through this support, PEGASE sustains the Palestinian Authority's (PA) efforts in the four PRDP key sectors of governance, social development, economic and private sector development and public infrastructure.

The current PRDP, presented by the Palestinian Authority for a three-year term (2008-2010), received an unprecedented level of external support in 2008 that was maintained at a reduced but still high amount in 2009. Nevertheless, the funds pledged for direct financial support are not sufficient to cover completely the PA's financial gap foreseen for 2011. Moreover, in August 2009, PM Fayyad presented the PA's "Programme of the Thirteenth Government". Based on the PRDP, the plan aims at building strong governmental institutions which will serve as the basis for a future independent Palestinian State within a two-year time-frame. The plan focuses on the legal framework, organisational structures and processes, the use of technology in government, the management of financial resources and the management of human resources in civil and security sectors. The EU has expressed its support for PM Fayyad's plan. The next Palestinian Development Plan (2011-2013) is currently under preparation and will be based on 23 sector strategies.

The funds provided in 2010, from the EU Budget, through the PEGASE mechanism, for recurrent expenditures (EUR 199.90 million) were complemented with funds from EU Member States. So far in 2010, Member States have committed EUR 62.70 million to PEGASE. Germany has paid EUR 20 million for the supply of fuel to the Gaza Power Plant, Italy has signed a Memorandum of Understanding for EUR 7 million to cover social allocations to vulnerable Palestinian families (VPF), Sweden has also signed an MoU for EUR 5.2 million to cover salaries and Austria has made a contribution of EUR 0.5 million in assigned revenues for VPF payments. Spain has made a contribution of EUR 30 million to the PA through PEGASE for salary and pensions payments. France has also made a contribution of EUR 68 million to the PA

in 2010, but not through PEGASE. Some Member States have contributed to the World Bank Trust Fund: however, the Ministry of Finance does not report on individual national contributions to the Fund. It is hoped that further contributions from Member States will be made during the budget year 2011.

Other donors are also providing support for direct financial assistance through non-PEGASE channels, including directly to the PA budget or via the World Bank Trust Fund. Further support has been received from Algeria (\$26.3 million); Saudi Arabia (EUR 15.2 million); Qatar (\$9.8 million); USA (\$74.8 million); India (\$9.9 million) and the World Bank Trust Fund (\$182 million).

2.2. Lessons learnt

Actions under PEGASE build upon the successful experience of the Temporary International Mechanism in 2006 and 2007. PEGASE is implemented in full co-ordination with Palestinian partners and in full co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the Palestinian Authority for its alignment with the PRDP and the strong sense of ownership on the part of Palestinians as well as for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

A mid-term review of the PEGASE Mechanism was launched by the Commission late 2009, the results of which showed that the flexibility in planning and implementation, the highly competent and professional staff and the use of well proven management systems while continuously innovating improved and new approaches, contributed to the success of this mechanism.

2.3. Complementary actions

During the Sharm el-Sheikh donor conference in support of the Palestinian economy for the reconstruction of Gaza, pledges made amounted to USD 4.7 billion (EUR 3.5 billion).

So far in 2010, a total of EUR 432.57 million has already been committed by the European Commission for the benefit of the Palestinian population: EUR 356.90 million from ENPI allocations, out of which EUR 199.90 million for PEGASE support to recurrent expenditure and EUR 88 million for UNRWA (which includes a contribution of EUR 86 million to their Regular Budget). A further EUR 69 million has been allocated for projects aimed at social and economic development and institution-building in support of the Palestine Plan for Reform and Development and the PA's Two Year Plan for Statehood. As humanitarian assistance to the Palestinian population in the occupied Palestinian territory and to Palestine refugees in Lebanon EUR 58 million have been committed. A further EUR 2.2 million has been mobilised from the Food Security budget line to support innovative actions. Support to civil society is being provided from the European Instrument for Human Rights and Democracy (EUR 0.9 million) and the thematic line Non State Actors and Local Authorities in Development (EUR 2.4 million).

Local donor co-ordination has been streamlined in accordance with the conclusions of the AHLC meeting held 14 December 2005 in London following a proposal by the Commission, the World Bank and Norway to reform the Aid Management

Structures. The Commission continues to play a leading role in these structures at all levels, as well as in local EU MS co-ordination. Complementarity and coordination with other EU actions are assured through regular coordination meetings at Headquarters and daily contacts between ECHO and RELEX/AIDCO staff working in the EUTAO in East Jerusalem. The PA made known to potential donors at the Sharm-el-Sheik Conference in March 2009 that PEGASE was amongst its preferred delivery mechanism for channelling funds.

3. DESCRIPTION

3.1. Objectives

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

- finance its budget deficit and implementing its reform agenda;
- meet its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society, and thus;
- maintain the functioning of the administration and the provision of essential public services to the population;

3.2. Expected results and main activities

Three categories of public expenditure are in principle eligible for support under this action, for a total amount of EUR 60 million which follows previous decisions committed on 2009 and 2010 funds.

Component 1: Supporting Palestinian administration and services

PEGASE will make available an additional contribution to the payment of salaries and pensions to the PA civil servants in the occupied Palestinian territory. The objective of this activity is to help the PA meet its financial obligations towards civil employees and pensioners. The regular contribution to the funding of the wages expenditure for civil servants reinforces the PA's public finance management and public finance reform implementation. At the same time, it allows the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza Strip. The latter includes also a possible contribution by the PA to UNRWA for the payment of salaries of social service providers in Gaza implemented according to the same procedures and applying the same ex-ante and ex-post verification and control measures.

Component 2: Supporting the Palestinian social protection system

PEGASE will make available at regular intervals direct financial support to vulnerable families in the West Bank and the Gaza Strip. The objective of this activity is to ensure the continued assistance to poor and vulnerable Palestinian families dependent on financial aid from the PA. This activity reinforces the reform of the social protection system and improves PA public finances by reducing pressure on the budget by reducing expenditure through the coverage of allowances

due to the beneficiaries of the Ministry of Social Affairs' (MoSA) cash support programme.

Component 3: Supporting the provision of essential public services

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

3.3. Risks and assumptions

It is expected that contributions from Member States and other donors will be made available during the implementation period to complement the proposed funds. Fluctuations in the exchange rate may have an impact on funding needs. Nevertheless the Ministry of Finance of the Palestinian Authority has informed the Commission that it anticipates that the funds received from this contribution will, together with its own resources and other donor funds, be sufficient to meet its obligations for its employees in the health and education sectors early 2011.

Full co-operation with the Palestinian Authority is essential. This co-operation needs to be maintained, in particular for the identification of eligible beneficiaries and timing of payments and for the identification of eligible expenditure.

All actions under this special measure require that no additional restrictions are imposed by the Israeli Government, for example on financial transactions, including transfer of funds between the West Bank and Gaza Strip.

3.4. Cross-cutting Issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the PA is assured. The actions proposed provide services vital to the social and economic rights of the Palestinian population.

3.5. Stakeholders

The direct beneficiary of the action is the Palestinian population.

Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the European Commission and based upon requests and information provided by the Palestinian Authority.

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

PEGASE will be co-ordinated locally with the EU Member States, other international donors and international organisations. In order to do so, full use will be made of the existing local co-ordination groups already in place such as the Local

Development Forum, the AHLC structures, the co-ordination meeting between Member States and the EU Delegation.

All donors supporting the mechanism will also be key stakeholders.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

This project will be financed under a financing agreement signed with the PA Ministry of Finance. Direct centralised management will be applied for all components.

PEGASE will be implemented by the Commission through the EU Technical Assistance Office in East Jerusalem, in close co-ordination with Member States officials and with the Palestinian Authority.

Disbursements will be made by the Commission either directly to the benefit of Palestinian Authority suppliers or to the Palestinian Authority following eligibility checks and verification and control procedures by external experts and international audit firms. These modalities have already been implemented through the earlier TIM mechanism.

4.2. Procurement and grant award procedures

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

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation 1638/2006.

The West Bank and Gaza Strip is facing a crisis, as defined in Article 168(2) of the Implementing Rules of the Financial Regulation. As a result negotiated contracting procedures or direct award for grant contracts may be used in accordance with applicable provisions.

4.3. Budget and calendar

The maximum contribution to PEGASE – Support to Recurrent Expenditures of the PA under this decision is EUR 60 million. The contribution is indicatively distributed as follows:

Component 1: Supporting Palestinian administration and services (EUR 60 million)

Component 2: Supporting the Palestinian social protection system (EUR 0 million)

Component 3: Supporting the provision of essential public services (EUR 0 million).

All 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.

It is anticipated that, as in earlier years, other donors will make considerable contributions.

PEGASE runs for a three-year period in line with the PRDP, covering the financial years 2011, 2012 and 2013. The period of implementation of the current action is 24 months. The funds under this Decision are expected to be totally disbursed in 2011.

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

4.4. Performance monitoring

PEGASE will continue to implement a comprehensive monitoring, verification and control system to provide reassurance over the use of their funds, and the efficient and effective provision of support to the Palestinian administration and population while fully protecting donor interests.

Monitoring arrangements also include reviews to take stock of other donor contributions, reviews by the World Bank on reform progress, reviews by the IMF on budget execution as well as other relevant political developments.

Payments will be executed in accordance with Commission regulations. A sophisticated and uniform 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.

4.5. Evaluation and audit

Financial experts and qualified auditors will work for PEGASE which will be complemented by Commission and Member States specialists and international or local experts.

Advanced monitoring, control and audit systems are set up for all of PEGASE's activities. All donors participating in PEGASE have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

As well as audits of eligible expenditures to identify and validate payments, the PEGASE team will organise a general ex-post audit of the programme in accordance with international standards with a view to providing the maximum level of assurance. Donors will be invited to participate. In addition, contributing donors may carry out ex-post audits of expenditures covered by their payments.

In addition, a mid-term evaluation of PEGASE was carried out. The results of this evaluation were taken into account in future funding proposals. A comprehensive evaluation report covering the first three years of the PEGASE mechanism will be undertaken by the end of 2010.

4.6. Communication and visibility

The action will follow the EU visibility guidelines.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through a weekly bulletin. Regular information meetings are held with Member States in Brussels as well as locally.