

## ANNEX I

### **ACTION FICHE FOR THE OCCUPIED PALESTINIAN TERRITORY**

#### **1. IDENTIFICATION**

Title/Number	PEGASE : Support to Recurrent Expenditures of the PA		
Total cost	EUR 168 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**

PEGASE provides direct financial support for the Palestinian Reform and Development Plan (PRDP) and is helping to sustain 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 PRDP, presented by the Palestinian Authority for a three-year term (2008-2010), received an unprecedented level of external support, although the funds pledged for direct financial support are not sufficient to cover the PA's financial gap foreseen for 2008-2010.

Recent developments highlight the continued importance of the contribution of PEGASE direct financial support: payments to vulnerable Palestinian families, civil servants and pensioners, and the provision of fuel to the Gaza power plant for the production of electricity, and support to the private sector through the reimbursement of arrears due by the PA.

The funds provided under PEGASE from the EC budget for recurrent expenditures (EUR 216 million) have been complemented with funds from EU Member States (EUR 106 million to PEGASE Direct Financial Support). Further contributions are expected for 2009, for all components of PEGASE direct financial support. Contacts for additional support from other potential donors (also non-EU) are ongoing.

Other donors are also providing support for direct financial assistance through other channels, including directly to the PA budget or via the World Bank Trust Fund. So far these contributions amount to over USD 425 million (EUR 319 million).

Important efforts have been made by Commissioner Ferrero-Waldner to encourage other donors to deliver on their Paris pledges and to reallocate funds towards direct financial support, the highest priority of the PA.

## 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 coordination with Palestinian partners and in full cooperation and transparency with EU Member States, the European Parliament and other donors.

An interim independent external evaluation of the TIM was launched in May 2007 covering all activities since the beginning of TIM in June 2006 to the end of June 2007. The main conclusions of the evaluation stated that TIM has been an innovative instrument, capable, in a difficult and complicated environment, to quickly mobilise resources from donors and to target them efficiently at the neediest. At the same time high standards of transparency and accountability were ensured through rigorous fiduciary, control and verification procedures. It also noted that TIM was viewed positively and as directly improving living conditions for a large part of the Palestinian population. The overall efficiency of TIM was the most appreciated feature. A final evaluation and audit of TIM are currently being finalised and results will feed into the implementation of PEGASE.

## 2.3. Complementary actions

Support to direct financial support has also been provided by other donors either through PEGASE, directly to the Palestinian Authority or via the World Bank. At the Paris donor conference in December 2007 donors made pledges in support of the PRDP. Most donors are fulfilling their pledges. So far, the Palestinian Authority has received commitments for over USD 1.53 billion (EUR 1.21 billion) in 2008 in direct financial support, out of which USD 1.2 billion (EUR 0.9 billion) have already been disbursed.

In 2008 an amount of EUR 340 million of EU funding under ENPI is made available for the occupied Palestinian territory. So far most of the funds (EUR 216 million) are allocated for direct financial support under PEGASE recurrent expenditure<sup>1</sup>, infrastructure projects (EUR 37 million) and Institution Building projects (EUR 14 million) in support of PRDP programmes, while the remaining amount was allocated to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) (EUR 71 million) and East Jerusalem initiatives (EUR 2 million).

In addition to funds under ENPI, other EC contributions for the benefit of the Palestinian population are implemented through thematic programmes including International NGOs as well as by the humanitarian and food aid programmes of ECHO. ECHO committed EUR 72.36 million in 2008 for humanitarian actions in favour of the Palestinian population and refugees. Support is also provided to the refugee population through UNRWA, which is also the object of this decision (see annexes II and III).

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<sup>1</sup> An additional EUR 42 million are currently under adoption procedure, which includes a EUR 1 million contribution from Austria.

## **2.4. Donor coordination**

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 EC actions are assured through regular coordination meetings at Headquarters and daily contacts between ECHO and RELEX/AIDCO staff working in the ECTAO in East Jerusalem.

## **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 implement its public finance reform;
- meet its obligations towards civil employees, pensioners and vulnerable sectors of Palestinian society;
- 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 will be eligible for support under this action, for a total amount of EUR 168 million:

#### *Component 1: Supporting Palestinian administration and services*

PEGASE will make available a regular contribution to the payment of salaries and pensions to the PA civil servants in the West Bank and the Gaza strip. 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.

#### *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) will 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 etc. is also foreseen.

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

Variations in the price of fuel and fluctuations in the exchange rate may have an impact on funding that donors can make available.

It is expected that contributions from Member States and other donors will be made available during the implementation period to complement the proposed funds.

The above-mentioned operations are based on full co-operation with the Palestinian Authority. This cooperation 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 the delivery of fuel into the Gaza Strip, or on financial transactions, including transfer of funds between the West Bank and Gaza.

If the Agreement on Movement and Access is gradually implemented following negotiations post-Annapolis, PEGASE can be a powerful instrument at the disposal of the PA government, of Europe and of the International Community, to mobilise resources thus contributing to the successful recovery of the Palestinian economy and the construction of a viable Palestinian State based on peaceful co-existence and prosperity.

### **3.4. Cross-cutting Issues**

Good governance principles are applied to the implementation mechanism.

### **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 Prime Minister's Office, the Ministry of Finance and the technical Ministries and other Departments and Agencies of the PA.

PEGASE will be coordinated 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 coordination groups already in place in liaison with the PA administration and the Office of the Quartet Special Representative like the Local Development Forum, the AHLC structures, the coordination meeting between Member States and the EC Delegation etc.

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 EC Representation Office in East Jerusalem, in close coordination 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 the Gaza strip are territories 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 under this decision is EUR 168 million. The contribution is indicatively distributed as follows:

*Component 1: Supporting Palestinian administration and services (EUR 108 million)*

*Component 2: Supporting the Palestinian social protection system (EUR 6 million)*

*Component 3: Supporting the provision of essential public services (EUR 54 million)*

This estimate assumes that other donors will make considerable contributions to each of the components, in particular to component 2.

PEGASE runs for a 3 year period in line with the PRDP, covering the financial years of 2008, 2009 and 2010. The period of implementation of the current action is 24 months. The funds under this decision are expected to be disbursed in 2009.

Funds for the necessary technical assistance, evaluation, audit and visibility actions have already been made available under previous 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 EC 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 EC 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 report of PEGASE will be issued in mid-2009 and a comprehensive final evaluation report will be undertaken by the end of 2010.

#### **4.6. Communication and visibility**

The action will follow the visibility guidelines of the Commission. It is intended to reinforce the Commission's efforts to consolidate recognition for its unprecedented efforts from 2006 to 2008 and to highlight the evolution to PEGASE with the emphasis on moving from emergency to development assistance. This will be done in close co-ordination with the Member States.

Progress of PEGASE implementation will be communicated regularly to all stakeholders, including through a weekly bulletin.