

**Annex I**  
**Action Fiche for West Bank and Gaza Strip/ ENPI**

**1. IDENTIFICATION**

Title/Number	<b>PEGASE: Support to Recurrent Expenditures of the PA</b>		
Total cost	EUR 158,500,000 maximum (EU contribution up to a maximum of EUR 158 million, plus EUR 0.5 million Assigned Revenues from Austria)		
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 early 2008, PEGASE 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 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 2008-2010. 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.

As in earlier years, the funds provided in 2009 under PEGASE from the Commission budget for recurrent expenditures (EUR 219.1 million) were complemented with funds from EU Member States. So far, this year Member States have committed EUR 55.70 million to PEGASE. Spain and Germany have paid EUR 25 million each, Sweden EUR 4.60 million, Greece EUR 0.5 million, Luxembourg EUR 0.1 million and Austria EUR 0.5 million. A further firm pledge of EUR 1 million has been received from Ireland. These funds and pledges refer only to support for PEGASE and not to the Member States' concerned total support for West Bank and Gaza Strip. According to the data provided by the PA Ministry of Finance, France has provided USD 27.7 million this year and Greece a further USD 2.7 million. 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. To these figures should be added the additional contribution of EUR 0.5 million from Austria to the present action in the form of Assigned Revenues. It is hoped that further contributions from Member States will be made during the budget year 2010.

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. For the first ten months of 2009, the PA has received USD 698.7 million from non-EU sources.

Important efforts have been made by Commissioner Ferrero-Waldner to encourage other donors, including Arab donors, to deliver on their Paris pledges and to re-allocate 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 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 has been launched by the Commission, the results of which will feed into the programme, future Commission decisions and financing agreements.

## **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 2009, EUR 494.63 million has already been committed by the European Commission for the benefit of the Palestinian population. Part of this was humanitarian assistance to the Palestinian population in the Occupied Palestinian Territory and to Palestine refugees in Lebanon (EUR 65 million) and a contribution from the Food Facility instrument (EUR 39.70 million). Under the ENPI budget, EUR 352.8 million has been committed in support of: UNRWA (EUR 77.2 million), for PEGASE support to recurrent expenditure (EUR 219.1 million), PEGASE support for infrastructure, institution building, Gaza recovery, development and East Jerusalem (EUR 56.5 million). A further EUR 15.48 million has been mobilised from the Food Security budget line, of which EUR 5 million has been allocated to UNRWA, EUR 9.48 million being made available to NGOs via a call for proposals for water sanitation and EUR 1 million for Rural Micro Finance (Pilot Project for Agricultural Production in Palestine). Support to civil society is being provided from the European Instrument for Human Rights and Democracy (EUR 0.9 million). From the Instrument for Stability budget line a total of EUR 19.63 million was allocated to

Nahr el Bared Camp in Lebanon and for Supporting Early Recovery in Gaza. A further EUR 1.12 million was for EUBAM (EU Assistance Mission in Rafah Crossing) from the CFSP budget.

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 ECTAO 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 120 million which follows the previous decisions C(2008)8249 for EUR 168 million, C(2009)5248 for EUR 39 million committed on the 2009 funds and a further EUR 12.1 million currently under the decision procedure also for 2009 funds:

##### *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 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 by maintaining open the administrative structure of the programme. 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. Variations in the price of fuel and fluctuations in the exchange rate may have an impact on funding needs.

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 the delivery of fuel into the Gaza Strip, or 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 and target large numbers of vulnerable citizens, many of whom are female heads of households.

### **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, and 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 under this decision is EUR 158.5 million. The contribution is indicatively distributed as follows:

*Component 1: Supporting Palestinian administration and services (EUR 120 million)*

*Component 2: Supporting the Palestinian social protection system (EUR 38.5 million, including a contribution of EUR 0.5 million from Austria in the form of Assigned Revenues)*

*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 as described in and according with the provisions of Commission decision C(2008)8267 of 17/12/2008.

It is anticipated that, as in earlier years, other donors will make considerable contributions to each of the components.

PEGASE runs for a three-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 totally disbursed in 2010. Frontloading has been requested by PM Fayyad for at least the salary payments for the first four months of 2010.

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 is ongoing. The results of this evaluation will be 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 visibility guidelines of the Commission.

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. The next such meeting will be organised in Brussels in mid-December 2009.