

ANNEX II

to the Commission Decision on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

Action Fiche for Palestine

1. IDENTIFICATION

Title/Number	Support to the Private Sector ENPI/2013/024-701		
Total cost	Total estimated cost: EUR 11 000 000 Total amount of EU budget contribution: EUR 11 000 000		
Aid method/ Method of implementation	Project approach: <i>Component 1:</i> Joint management with the United Nations Development Programme (UNDP) <i>Component 2:</i> Centralised indirect management with the Belgian Development Agency (BTC) <i>Component 3:</i> Centralised direct management (PEGASE Direct Financial Support mechanism)		
DAC code	32130	Sector	Small and medium-sized enterprise (SME) development

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

Private sector development is one of the European Union (EU)'s focal sectors of intervention in Palestine. The current action focuses on three sub-sectors within private sector development: (i) Tourism industry development; (ii) Micro, small and medium enterprises (MSME) development; and (iii) Industrial parks.

2.2. Context

2.2.1. Country context

2.2.2. Economic and social situation and poverty analysis

The economy of Palestine has been marked by the disruption of more than forty years of occupation and conflict, during which the economic growth path has paralleled political developments. The obstacles imposed by Israel have deterred

growth and resulted in an economy highly dependent on the Israeli market and on donor aid. The Palestinian economy is characterised by low levels of investment, low exports, geographical fragmentation, the decline of the industrial and agricultural sectors, a worker skills deficit across all sectors, high unemployment rates (women and youth in particular) and increasing poverty levels, despite a certain comparative advantage arising from a workforce with low wages compared to its high level of education.

The Palestinian Authority (PA) has since mid-2011 been experiencing a serious fiscal crisis. Its liquidity problems have caused it to pay its salaries and pensions with delays and in instalments on various occasions. The PA has also accumulated significant domestic payment arrears, notably to the private sector. The situation has been aggravated by the withholding on several occasions of the transfer of 'clearance revenues' by Israel due to various political developments. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the Authority's inability to pay civil servants' salaries for the previous month.

In April 2013, Salam Fayyad resigned as Prime Minister of the Palestinian Authority. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas this Cabinet should make way for a consensus government by 15 August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that *"In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace"* underlining *"the urgency of renewed, structured and substantial peace efforts in 2013"* and declared that *"towards this end, it is ready to work with the US and other international partners, including within the Quartet"*. The United States' Secretary of State Kerry has launched a new initiative to resume the peace talks recently.

2.2.2.1. National development policy

The "Palestinian Reform and Development Plan 2008-10 (PRDP), which set out a three-year fiscal and policy agenda for reform and development, received an unprecedented level of external support, in particular from the European Union (EU). Subsequently, Prime Minister Fayyad presented in August 2009 the PA's plan 'Ending Occupation, Establishing the State' (Programme of the 13th Government). Based on the PRDP, it aimed to build strong governmental institutions that were to serve as the basis for a future independent Palestinian State within a two-year timeframe.

In August 2010, the PA presented a new document called 'Homestretch to Freedom', which reviewed the progress achieved in the first year of the 'Ending Occupation, Establishing the State' programme and put forward the plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) meeting in Brussels, the PA presented the National Development Plan (NDP) for the years 2011-13 to the donor community. The NDP is consistent with 'Homestretch to

Freedom' and the PRDP and has also received donor support. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.3. Sector context: policies and challenges

The obstacles to the development of the Palestinian private sector are numerous and many-sided, e.g. the difficulty and uncertainty of obtaining movement permits for both Palestinian and foreign nationals; limited access to land and water in the West Bank; segregation from the lucrative East Jerusalem market and limited access to Area C (60% of the West Bank); the de facto ban on exports from Gaza; severe restrictions on imports to Gaza; and the disrupting effects of settlement activity and settlers.

Only a dynamic and rapidly growing private sector will be able to provide the jobs needed by the expanding Palestinian population and generate the revenues required to fund essential government services and to increase the Authority's ability to pay the salaries of its employees, to which the EU currently contributes substantially. The removal of the restrictions imposed by Israel on access to markets and to natural resources continues to be a prerequisite for the expansion of the Palestinian private sector.

The PA has made private sector development a national priority. This is reflected in the NDP for the years 2011-13. In particular, the Ministry of National Economy (MNE) has prioritised micro, small and medium enterprises (MSMEs) and the establishment of industrial parks in its development agenda. The agenda also highlights tourism, which is seen as offering growing potential for economic activity, even though substantially restrained by Israeli restrictions and by the unrest in Palestine—tourism is also seen as a means to preserve cultural heritage and identity.

2.3. Lessons learnt

Lessons are drawn from similar projects:

- The previous EU project that resulted in the rehabilitation of Khan Al Wakale, implemented by UNESCO: the aim of the Development of Cultural Tourism component of this programme is to build on this experience in order to link infrastructure conservation with the management of cultural sites with a view to economic development.
- A business service sector analysis was issued by the UK's Department for International Development (DFID) in 2011 in which the need to upgrade the quality of services was identified as a key challenge for the private sector. The DFID-funded Facility for New Market Development (FNMD) programme demonstrated that most enterprises do not attach enough value to strategic business services such as market research, quality standards, marketing strategies, product development or other sophisticated business support services. Because of the lack of demand for such strategic services, business service providers have limited capabilities and see no reason to upgrade them. This in turn leads to enterprises being relatively unsophisticated, experiencing problems in producing competitive quality products and services and even preparing

business plans to secure access to bank finance or venture capital funds. The aim of the second component 'Start-Ups Incubators Project' component of this programme is to respond to this need. The set-up and operating details of the fund and eligibility criteria for beneficiaries will be detailed during the design phase to be launched soon.

- The PA's EU-funded Private Sector Reconstruction in Gaza (PSRG) programme, where the EU decided to expand the use of the mechanism to support other PA initiatives for the benefit of different types of businesses. The aim of the third component is to build on the existing mechanism in support of PRIDE (Partnership for Regional Investment, Development and Employment), which is the first national programme supporting an industrial park, namely the Jericho Agro-Industrial Park (JAIP).

2.4. Complementary actions

Private Sector Development is a focal sector of EU support to the Palestinians, with a total of EUR 58 000 000 allocated from 2006 to 2012. Relevant EU-funded projects supporting the Palestinian private sector and trade-related initiatives complementing this action are: (i) the Private Sector Reconstruction in Gaza (PSRG) programme, (ii) the European-Palestinian Credit Guarantee Fund (EPCGF), (iii) the Palestinian Market Development Programme (PMDP), (iv) Support to the Palestinian Quality Infrastructure (PSI), (v) Support to the institutional capacities of the Ministry of National Economy, (vi) the Trade Diversification/Competitiveness Enhancement Programme, (vii) EU support for Technical Vocational Education and Training (TVET) development in the West Bank.

The EU also allocated a significant amount of funds from the Instrument for Stability (IfS) following Operation 'Cast Lead', including EUR 14 850 000 for an Emergency Job Creation Programme.

All major donors in Palestine, not least the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the World Bank (WB) — and, amongst the EU Member States, the UK, through the Department for International Development (DFID), France, through the Agence Française de Développement (AFD), and Germany, through Kreditanstalt für Wiederaufbau (KfW) — are conducting significant private sector development projects related to this programme.

2.5. Donor co-ordination

Donor co-ordination takes place in various fora under the Local Development Forum (LDF) and its four 'strategy groups', including the Economic Policy Strategy Group (ESG), co-chaired by the PA's Ministry of Finance and the World Bank. Under the ESG, private sector development initiatives are coordinated through the Private Sector Development and Trade Working Group (PSDTWG), which is co-chaired by the Ministry of National Economy and the World Bank. Regular contacts also take place between the EU and the main donors in these sectors. In addition, EU policy is coordinated through regular meetings of the EU Heads of Cooperation. There is no formal forum for coordination around industrial parks yet, but increased informal

coordination has recently taken place which is expected to lead to a more structured policy dialogue to support the development of an overall national policy on the matter.

3. DETAILED DESCRIPTION

3.1. Objectives

The **overall objective** of the action is to promote sustainable (green and inclusive), private sector-led, job-creating socio-economic development in the occupied Palestinian territories.

The **specific objectives are:**

- to enhance green and inclusive socio-economic development through Public-Private Partnership (PPP) in the cultural tourism sector;
- to support the creation and the financial sustainability of MSMEs in Palestine;
- to support the emerging Industrial Parks policy and contribute to the first national industrial parks programme called ‘Partnership for Regional Investment, Development and Employment (PRIDE)’, which is providing incentives to Jericho Agro-Industrial Park (JAIP) tenants.

3.2. Expected results and main activities

Component 1: Support for the Development of Cultural Tourism

The main **expected result** of this component is the development of a model for PPP for the management of cultural heritage for tourism purpose.

The **main activities** are: (i) a feasibility study to assess the economic potential of the two initially identified cultural sites so as to confirm the choice of the sites or propose new ones; (ii) revitalisation of the Maqam En-Nabi Musa complex (Ministry of Tourism and Antiquities/Jericho Governorate), including rehabilitation and conservation of the infrastructure, development of tourism and cultural facilities (i.e. cultural centre, guest house and restaurant, tourism information centre) on the basis of a business plan; (iii) put into operation Khan Al Wakale (Nablus Municipality), through support to local authorities in the tendering process; (iv) development of a Public-Private Partnership model for the management of cultural heritage for tourism purposes in collaboration with the Ministry of Tourism and Antiquities and based on the two experiences, through legal support to the establishment of public-private agreements and capacity building.

Component 2: Start-Ups Incubators Project

A preliminary feasibility study conducted in January 2013 to ascertain the relevance of the project and define areas of support for start-ups has identified access to financial services and development of business services as critical for the sustainability of MSMEs.

The main **expected result** of this component is improved conditions for the creation of micro, small and medium enterprises (MSMEs) and enhancement of their skills in becoming more competitive and financially sustainable.

The **main activities** are:

- (i) Institutional support and awareness promotion (improving the enabling environment, increasing awareness of opportunities). Under this activity, with a view to ensuring sustainability, support will be provided to local authorities to act as permanent information centres. In addition, incentives to formalise existing informal businesses will be addressed through dedicated technical assistance to improve the business environment.
- (ii) Incubation support (training of trainers, voucher scheme for consultancy support, mobile training school, coaching entrants into incubation). The voucher scheme will contribute to the permanence of trained consultants through the creation of a pool of accredited local consultants which will guarantee the quality of their services and possibly lead to an increase in demand for their services from MSMEs and people wanting to set up a business.
- (iii) Access to finance. The project will bring together a number of potential investors from Palestine and abroad (affluent individuals and families, diaspora) and Palestinian financial institutions and will provide technical support for the establishment of an Angel Fund mechanism.

Component 3: PEGASE Direct Financial Support to the PRIDE (Partnership for Regional Investment, Development and Employment) national programme

The main **expected result** of this component is that the Jericho Agro-Industrial Park attracts a critical mass of tenants and that tenants receiving funds under the programme successfully start their operations in the park.

The **main activities** will build on experience with the PSRG and the programme's methodology. A comprehensive database of applicants for financial support from the PA's PRIDE programme of financial support to JAIP tenants will be established by the PA on the basis of its own eligibility criteria. The EU will inter alia: (i) verify the quality of the database and all individual applications contained in it; (ii) establish its own eligibility criteria for financial support; (iii) authorise payments to those applicants that have been deemed eligible according to both PA and EU eligibility criteria; and (iv) perform ex-post audits of the payments made and verifications on the use of funds received by applicants.

Specific qualitative and quantitative indicators will be developed for each component.

3.3. Risks and assumptions

Implementation of the EU's support to Palestine is subject to unusual types and high levels of risk, namely those arising from the continued Israeli occupation of the West Bank, the persistent blockade of the Gaza Strip, the on-going separation between the West Bank and Gaza Strip, the violent conflict between Palestinians and Israel, and

the conflict between Palestinian factions. In particular, all projects are at substantial risk from unpredictable Israeli policies and actions, e.g. further restrictions regarding trade in goods and the free movement of service providers; military actions in the Gaza Strip; demolitions and settler activity.

For the first component, an additional risk relates to the potential resistance from religious authorities that might object to the scope of the Maqam complex being extended from a pilgrimage site to a non-religious tourist attraction. This risk has been already mitigated at the identification stage through a meeting with all main stakeholders, including the Ministry of Tourism and Antiquities.

3.4. Cross-cutting issues

Good governance principles, the use of local systems and empowerment of local stakeholders are embedded in the design of the activities. The focus on control and audit systems, particularly in Component 3, promotes high standards of public financial management.

Gender equality will be promoted in every component of the action and sex-disaggregated data will be used when possible.

Environmental sustainability is a central cross-cutting issue in this programme and environmentally friendly business practices will be promoted through the three components.

3.5. Stakeholders

The direct beneficiaries of the programme are businesses and/or persons interested in investing in the tourism sector, local associations, local authorities (namely Nablus Municipality and Jericho Governorate), national business service providers, entrepreneurs, and Jericho Agro-Industrial Park tenants eligible to receive funds under the programme.

The other main stakeholders in the programme are the national authorities (Ministry of Tourism and Antiquities, Ministry of Waqf and Religious Affairs, Ministry of National Economy and its Palestinian Industrial Estates and Free Zones Authority (PIEFZA), Ministry of Labour, Ministry of Finance), Chambers of Commerce, private sector representative organisations, the Palestine Investment Promotion Agency, private investors, existing incubators and centres of excellence at universities, financial institutions, and venture capital actors.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, a financing agreement is to be concluded with the partner country, as referred to in Article 184(2)(b) of the Financial Regulation.

Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2 and 4.3 will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.2. Implementation components and modules

4.2.1. *Component 1 (Support to Development of Cultural Tourism): Joint management with the United Nations Development Programme (UNDP)*

This action, with the objective of enhancing green and inclusive socio-economic development through Public-Private Partnership (PPP) in the cultural tourism sector, will be implemented via joint management with the UNDP.

This method of implementation is justified because the UNDP has solid experience in the restoration and rehabilitation of cultural heritage sites in Palestine, coupled with the necessary management capacities. The UNDP has worked actively over the past ten years in projects of this kind and has effectively formulated a rehabilitation project within the EU's East Jerusalem programme. In addition, the UNDP has established a successful partnership with the Ministry of Tourism and Antiquities which will certainly contribute to the smooth implementation of the assistance.

Joint management with this international organisation in accordance with Article 53d of Financial Regulation 1605/2002 is possible because the organisation is bound by a long-term framework agreement (FAFA) and the project is developed jointly between the organisation and the Commission.

The UNDP might consult UNESCO or other specialised partners on an ad hoc basis on international standards for the rehabilitation aspects.

The UNDP will be responsible for all the budget implementation tasks, using its own procedures. A change in the method of implementation would constitute a substantial change except where the Commission 're-centralises' or reduces the level of budget implementation tasks previously entrusted to the UNDP.

4.2.2. *Component 2 (Start-Ups Incubators Project): indirect centralised management with the Belgian Development Agency (BTC)*

This action, with the objective of supporting the creation and financial sustainability of start-ups in Palestine, will be implemented through indirect centralised management with the Belgian Development Agency (BTC) in accordance with Article 54(2)(c) of Financial Regulation 1605/2002. This method of implementation is justified because:

- BTC is responsible for implementing the General Agreement on Development Cooperation between the Palestinian Authority and Belgium. Since 2000, BTC has implemented projects in Palestine focusing on sustainable development and infrastructure. In addition to building structures, they have built capacity and trained human capital so that the local population draws a great deal of benefit from these structures.

- A Delegation Agreement with BTC will have the added value of capitalising on the experience gained by BTC through the TVET programme which it is currently implementing in Palestine. This project has enabled youth and adults to acquire and update their skills through continuously adapting market-based vocational training programmes in some selected priority fields such as electro-technology and electronics, communications technology, information technology and business administration and has impacts in four areas: linking training with the labour market, institutional capacity building, market-based training and support for innovative ideas by TVET stakeholders.
- It is in line with the Guiding Principles of the EU backbone strategy, namely working through harmonised and aligned action.
- BTC has passed the EU 6 pillars assessment and is qualified for receiving funding from the EU.

The agency will be fully entrusted with the implementation of the project, including the procurement of services, and the selection of beneficiaries for incubation technical support and funding; it will implement all activities including providing training, advisory and facilitation services related to the following three main components:

1. *Improved business environment for start-ups through institutional support and awareness raising;*
2. *Increased number of entrants into incubation and of final number of success rates of start-ups through the provision of an incubation support mechanism;*
3. *Enhanced access to finance for start-ups.*

A change in the method of implementation would constitute a substantial change except where the Commission ‘re-centralises’ or reduces the level of budget implementation tasks previously entrusted to the agency.

4.2.3. *Component 3 (PEGASE Direct Financial Support to PRIDE): Direct centralised management*

Direct centralised management will apply to component 3, through the PEGASE Direct Financial Support mechanism, and to audits and evaluations.

4.3. *Scope of geographical eligibility for procurement in direct centralised and decentralised management*

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act will apply.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under ENPI shall be eligible for participating in procurement procedures under this action because it is co-funded by that instrument.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act ENPI on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the implementation of this action impossible or exceedingly difficult.

4.4. Indicative budget

Component	Amount in EUR thousands	Third party contribution
4.3.1. — Component 1 (Support to Development of Cultural Tourism): Joint management with UNDP	5 000	0
4.3.2. — Component 2 (Start-Ups Incubators Project): Indirect centralised management with BTC	3 500	0
4.3.3. — Component 3 (PEGASE Direct Financial Support to PRIDE): Direct centralised management	2 000	0
4.7. — Evaluation and audit	350	0
4.8. — Communication and visibility	50	0
Contingencies	100	0
Totals	11 000	0

4.5. Performance monitoring

The project will be monitored by the beneficiary according to relevant indicators of performance, including gender-disaggregated data. The choice of key progress indicators will form part of the project formulation process and each action will be supported by a logical framework including objectively verifiable indicators to evaluate the level of achievement at each stage. If information on baseline values necessary to establish relevant indicators is not available, the projects could be designed in such a way that the baseline is established during the first months of implementation and the target values are adapted accordingly.

The Commission may carry out Results Oriented Monitoring via independent consultants.

4.6. Evaluation and audit

- The Contribution Agreement with the UNDP will provide for an ex-post evaluation one year after the implementation period in order to assess the operation of the sites. A mid-term evaluation may be also carried out.
- The Delegation Agreement with BTC will provide for mid-term and final evaluation. If appropriate an ex-post evaluation will be conducted.
- Comprehensive monitoring, verification and control systems, in use for EU funds disbursed through the PEGASE DFS mechanism, will be established. A uniform

financial reporting system will provide detailed information on operations to external stakeholders and donors. Taking into account the characteristics of the sector, the geographical location, the payment system used and donors' requests, specific adapted ex-ante, real-time and ex-post monitoring control and audit procedures will be established. If relevant a final evaluation will be conducted.

When necessary, external mid-term, final or ex-post evaluation of project components and/or global evaluation of the whole action will be conducted in accordance with European Commission procedures. When necessary external audits/verification missions will be undertaken by the EU.

4.7. Communication and visibility

In accordance with the EU visibility guidelines for external actions, the action will incorporate information and communication activities to raise awareness of the action, the EU support and the impact of this support. Each contractor will be responsible for implementing those activities in line with the EU guidelines and in consultation with the EU office in Jerusalem. The beneficiary/contractor must inform the EU about upcoming communication activities and invite the EU to visibility events.