Action Fiche for the occupied Palestinian territory (West Bank and Gaza Strip)

1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority – 2013 (Part II)</th>
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<tbody>
<tr>
<td>Total cost</td>
<td>EU contribution: EUR 108 million</td>
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<tr>
<td>Aid method / Method of implementation</td>
<td>Project approach –centralised direct management</td>
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<td>DAC-code</td>
<td>16010</td>
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<td>Sector</td>
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2. RATIONALE

2.1. Sector context

Since its establishment in early 2008, the PEGASE mechanism (French acronym for Mécanisme "Palestino - Européen de Gestion et d’Aide Socio-Economique”) provided direct financial support for the Palestinian Reform and Development Plan (PRDP) until its replacement in 2010 with the Palestinian National Development Plan (PNPD). Through this support, PEGASE sustained the Palestinian Authority's (PA) efforts in the four 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 and 2010. The PRDP was superseded in 2011 by the National Development Plan, "Establishing the State - Building our Future", covering the period 2011-2013. 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 based on 23 sector strategies. The EU has expressed its support for Prime Minister Fayyad's plan.

Since mid-2011, the PA has been experiencing a serious fiscal crisis as the Israeli occupation continues to impact on the Palestinian economy, Gaza remains effectively blockaded and insufficient donor funds have been made available to cover its budget deficit. The PA’s financial crisis is furthermore exacerbated by Israel’s withholding of tax transfers. The World Bank appealed for donors to contribute an additional USD 400 million to fill the PA's financial gap for the fiscal year 2012. Although no concrete budget data for the fiscal year 2013 is available yet, the outlook 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 the civil service salaries for the previous month. In 2012, nearly EUR 94 million were provided for recurrent expenditures from the EU Budget through PEGASE. It should however be noted that an allocation of EUR 72 million was provided for Direct Financial Support through PEGASE at the end of 2011 by a budgetary re-adjustment, which when added to the 2012 financial allocation, allowed
for funding for occupied Palestinian territory (oPt) to effectively remain at the same level as 2011.

These funds were complemented with funds from EU Member States, albeit at a lower level than in previous years. In 2012, EU Member States committed over EUR 33 million to PEGASE: The Netherlands (EUR 6.5 million), Denmark (approximately EUR 6 million, equivalent to DKK 45 million), Sweden (approximately EUR 5.2 million, equivalent to SEK 45 million), Spain (EUR 4 million) and Ireland (EUR 1 million) signed Memoranda of Understanding to contribute to payment of PA salaries/pensions. Belgium, Austria and Ireland made available EUR 9 million, EUR 1.25 million and EUR 0.5 million respectively for social allocations for vulnerable Palestinian families. For the beginning of 2013, Austria has made available EUR 1.25 million for social allowances and Luxembourg has provided EUR 0.7 million for salaries. France has also made contributions amounting to USD 36 million to the PA budget, not through PEGASE but through the World Bank Trust Fund and directly to the PA. EU Member States have also contributed to the World Bank Trust Fund which has delivered a total of USD 225 million in 2012. From this, the UK provided USD 67 million and France USD 12 million. Other major European donors through the fund included Norway with USD 63 million.

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 Saudi Arabia (USD 100 million); United Arab Emirates (USD 85 million); Kuwait (EUR 49 million); Australia (EUR 33 million); Qatar (USD 30 million); Algeria (USD 26 million); and Iraq (USD 25 million).

A first tranche of EUR 60 million from the 2013 EU budget was frontloaded through PEGASE to help the PA with the payments of PA salaries/pensions and allowances for vulnerable families at the beginning of the year. This first allocation is to be completed by funds under this Decision, to reach an annual contribution of EUR 168 million. It is hoped that further contributions from EU Member States and other donors to PEGASE will be received during the year.

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 PA for its alignment with the National Development Plan 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

In 2012, a total of nearly EUR 384 million was committed by the European Union for the benefit of the Palestinian population: EUR 284 million from ENPI allocations, out of which EUR 4 million for PEGASE support to recurrent expenditure and EUR 118 million for UNRWA’s General Fund. A further EUR 72 million was allocated for projects aimed at social and economic development and institution-building in support of the Palestinian National Development Plan. UNRWA also received a further EUR 5 million allocation from the Food Security Budget Line to provide assistance for its Social Safety Net Programme to provide nutrition for those refugees living in absolute poverty and a further EUR 11 million from the same Budget Line has been allocated for support to livestock based livelihoods of the vulnerable population in the oPt.

EUR 52.5 million were committed from the EU budget as humanitarian assistance to the Palestinian population in the oPt and to Palestine refugees in Lebanon and Syria. A further EUR 4.4 million has been mobilised for civil society initiatives from the European Instrument for Human Rights and Democracy and the thematic line Non State Actors and Local Authorities in Development. EUR 5.7 million has been mobilised from the Instrument for Stability for actions aimed at supporting EUPOLCOPPS (European Union Co-ordinating Office for Palestinian Police Support) and EUBAM Rafah (European Union Border Assistance Mission at the Rafah Crossing Point) actions in the security sector.

Local donor co-ordination has been streamlined in accordance with the conclusions of the Ad-Hoc Liaison Committee (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 Member States co-ordination. Complementarity and co-ordination with other EU actions are assured through regular co-ordination meetings at Headquarters and daily contacts between staff working in the European Union Representative Office (EUREP) 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.

2.4. Donor co-ordination

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.
3. DESCRIPTION

3.1. Objectives

The overall objective of this action to be implemented through PEGASE is to maintain the viability of the two-States solution by sustaining basic living conditions of the whole Palestinian population.

The specific objective is to support the Palestinian National Development Plan by helping the PA to:

- reduce 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 108 million which follows previous decisions committed on 2008, 2009, 2010, 2011 and 2012 funds.

Component 1: Supporting Palestinian administration and services (Indicative allocation EUR 65 million)

The EU will make available an additional contribution to the payment of salaries and pensions to the PA civil servants in the oPt. 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.

Component 2: Supporting the Palestinian social protection system (Indicative allocation EUR 30 million)

The EU 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 relieving pressure on the budget by reducing expenditure through the coverage of allowances due to the beneficiaries of the Ministry of Social Affairs’ cash support programme.

Component 3: Support to East Jerusalem Hospitals (Indicative allocation EUR 13 million)

The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for the oPt, in particular the West Bank. The Israeli annexation of East Jerusalem, although not recognised by the international community, and the
construction of the separation wall/barrier has had the effect of making access to these hospitals particularly difficult for Palestinians living outside the city. 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, both in a financial crisis of their own while also contributing to the overall financial crisis of the PA.

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.

Full co-operation with the PA 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 PA.

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.

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. Direct centralised management will be applied for all components.
PEGASE will be implemented by the Commission through the EU Representative Office in East Jerusalem, in close co-ordination with Member States officials and with the Palestinian Authority.

Disbursements will be made by the Commission directly to the eligible beneficiaries of the Vulnerable Palestinian Families and Civil Servants and Pensioners programmes following eligibility checks and verification and control procedures by external experts and international audit firms.

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.

4.3. **Indicative budget and calendar**

The maximum contribution to PEGASE – Support to Recurrent Expenditures of the PA under this decision is EUR 108 million. The contribution is indicatively distributed as follows:

- **Component 1:** Supporting Palestinian administration and services (EUR 65 million).
- **Component 2:** Supporting the Palestinian social protection system (EUR 30 million).
- **Component 3:** Support to East Jerusalem hospitals (EUR 13 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.

The period of implementation of the current action is 24 months. The funds under this Decision are however expected to be totally disbursed by the end of 2013.

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 International Monetary Fund (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 an annual 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.

A comprehensive evaluation report covering the first three years of the PEGASE was carried out and the results have been taken into account in the implementation of the activities. 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.

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 monthly bulletin. Regular information meetings are held with Member States in Brussels as well as locally.