This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2016 part 1 in favour of Palestine\(^1\) to be financed from the general budget of the European Union

Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016"

<table>
<thead>
<tr>
<th>1. Title/basic act/CRIS number</th>
<th>&quot;PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2016&quot;, CRIS number: ENI/2016/038-842, financed under the European Neighbourhood Instrument</th>
</tr>
</thead>
</table>
| 2. Zone benefiting from the action/location | Palestine  
The action shall be carried out at the following location: Palestine |
| 4. Sector of concentration/thematic area | Temporary support measures: PEGASE Direct Financial Support (PDFS) to the Palestinian Authority (PA) |
| 5. Amounts concerned | Total estimated cost: EUR 170,500,000  
Total amount of EU budget contribution: EUR 170,500,000 |
| 6. Aid modality(ies) and implementation modality(ies) | Project Modality  
Direct management |
| 7. DAC code(s) | 16010 |
| 8. Markers (from CRIS DAC form) | | | |
| General policy objective | Not targeted | Significant objective | Main objective |
| Participation development/good governance | ☐ | ☐ | ☒ |
| Aid to environment | ☒ | ☐ | ☐ |
| Gender equality (including Women In Development) | ☒ | ☐ | ☐ |
| Trade Development | ☒ | ☐ | ☒ |

\(^1\) This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.
Reproductive, Maternal, New born and child health

**RIO Convention markers**

<table>
<thead>
<tr>
<th>Biological diversity</th>
<th>Not targeted</th>
<th>Significant objective</th>
<th>Main objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combat desertification</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Climate change mitigation</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Climate change adaptation</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**9. Global Public Goods and Challenges (GPGC) thematic flagships**

N/A

**SUMMARY**

The protracted crisis situation linked to the stagnation of the Middle East Peace Process (MEPP) and the fact that Palestine has not yet attained 'statehood' continues to require specific temporary support measures to contribute to maintaining the viability of the two-state solution. These cover the PEGASE² Direct Financial Support (DFS) to the Palestinian Authority (PA)'s national budget, as well as the support to UNRWA interventions for Palestinian refugees, altogether sustaining the delivery of basic services to the entire Palestinian population.

Through PEGASE DFS, the EU has contributed substantially to the recurrent expenditure of the national budget (around EUR 1.9 billion since 2008), with systematic, predictable and unconditional contributions to the payment of PA civil servants' salaries and pensions (PEGASE DFS "Civil Servants and Pensioners" (CSP) programme), of social allowances to the poorest and most vulnerable Palestinians families (PEGASE DFS "Vulnerable Palestinian Families" (VPF) programme), and, since 2013, of health referral bills through the PEGASE DFS "East Jerusalem hospitals" (EJH) programme. Through this programme, the EU provides crucial funding to avoid the collapse of those hospitals, which are amongst the few remaining Palestinian institutions in East Jerusalem and are providing key medical services to the Palestinian population. PEGASE DFS has contributed substantially to state building, as well as to the social cohesion, economic and security stabilisation of the Palestinian territories.

Coupled to PEGASE DFS, the EU has been supporting the PA to implement certain policy reforms aiming at enhancing its fiscal sustainability and improving the accountability, integrity, and transparency of its public finance system (public finance management, revenue mobilisation and fiscal reforms such as reduction of the net lending, health medical referrals), supporting its civil service reform, as well as improving service delivery (social protection).

In December 2013, the European Court of Auditors (ECA) published a report on PEGASE DFS³ where it recognised that the European External Action Service and the Commission had succeeded in implementing direct financial support to the PA in difficult circumstances. The report also concluded that the control measures put in place are robust and that there is no sign

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² Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique.
of mismanagement or diversion of funds. It also put forward a number of recommendations, most of which have already been addressed.

While disbursement remains unconditional, PEGASE DFS has undergone a shift towards a 'results-oriented approach' that aims to guide/formalise a more structured, coherent results-oriented policy dialogue, with stronger monitoring and evaluation of the PA's achievements in key areas, through a Results-Oriented Framework (ROF). Both the December 2013 ECA performance audit and the July 2014 external evaluation of the EU co-operation with Palestine confirmed the relevance and timeliness of this shift. The first ROF was co-signed in March 2015 by the EU and the Palestinian Prime Minister. It covers six sectors, falling within two pillars, aligned to EU PEGASE DFS specific objectives as set-up in the Single Support Framework (SSF) 2014-2015, namely Pillar I: Fiscal Consolidation and Policy Reforms covering (1) Macroeconomic Support; (2) Public Finance Management; and (3) Public Administration Reform; Pillar II: Service delivery covering (1) Education; (2) Health; and (3) Social protection.

1 CONTEXT

1.1 Country context

Palestine has been marked by the disruption of more than forty years of Israeli occupation, during which the economic development path and the democratisation process have paralleled the political developments. After a period of sustained state-building progress and economic recovery between 2007 and 2011 (which was largely driven by government spending, in turn, funded by aid flows), the democratic path (no electoral process, limited institutional accountability) and the economy (slowing growth, high unemployment, large fiscal deficits) have significantly slowed down since 2012.

The general outlook has deteriorated dramatically over the last two years. During 2014, the Peace Process negotiations collapsed and the Gaza Strip suffered a major humanitarian crisis and massive destruction as a result of Israel's "Operation Protective Edge", while Israeli restrictions imposed on Palestinian people and their economy continued unabated. Since the beginning of October 2015, violence and tension have alarmingly escalated in Jerusalem and the West Bank. More widespread violence is likely to return unless the root causes are addressed.

The aforementioned conflict and humanitarian tragedy in Gaza has made an already struggling Palestinian economy worse and put further stress on the Palestinian Authority's (PA), both in terms of accountability and on its fiscal situation – the PA's total deficit is projected to amount to USD 1.2 billion for 2015. With the reconciliation process struggling and Israel's withholding of clearance revenues during the first quarter of 2015 as a response to the PA's request for accession to the International Criminal Court (ICC), the PA ongoing fiscal crisis and difficult governance was further exacerbated. Difficulties of the PA in paying salaries and bills are recurrent, putting the institutional functioning and the delivery of basic services to the Palestinian population at risk. This is particular exacerbated in the Gaza Strip were the "National Consensus Government" (NCG) is not (yet) present on the ground and civil servants recruited after
2007 have not received their salaries since April 2014, except one-off ‘humanitarian' cash assistance.

Consequently, the PA continues to accumulate considerable debts to the banking sector and arrears to the private sector. The total external and internal PA debt reached USD 2.24 billion at the end of September 2015. Besides, debt to the Pension Fund also continued to grow and stood at USD 1.6 billion, while arrears to the private sector amounted to USD 475 million (both as of December 2014). In this context, health services have been greatly affected. As a result of the PA’s accumulated unpaid arrears, hospitals in East Jerusalem have recurrent difficulties in paying salaries and are highly indebted to medical suppliers.

The decreasing political prospects for a viable two-state solution and the lack of intra-Palestinian reconciliation progress further increases donors’ fatigue. For instance, although approximately USD 5.4 billion were pledged at the Cairo Conference on 12 October 2014 (half of which to be dedicated for the reconstruction of Gaza), there has been significant lack of progress in the actual volume and speed of the contributions as of December 2015.

In the absence of successful peace negotiations, the Palestinian economy will continue to be unsustainable and dependent on donor aid.

Poverty levels remain of serious concern. The latest available data from the Palestinian Central Bureau of Statistics (PCBS) indicate that, in 2011, poverty rates reached 18% in the West Bank and 39% in Gaza, with 70 percent of the population in Gaza being aid dependent. These figures have increased due to the 2014 hostilities in Gaza, which pushed many Gaza families into (deeper) poverty. According to the World Bank report to the Ad-Hoc Liaison Committee (AHLC) of 14 September 2015, poverty in Palestine reached 25% in 2014, with levels in Gaza at 39%.

1.1.1 Public Policy Assessment and EU Policy Framework

In April 2011, the PA introduced its National Development Plan (NDP) entitled “Establishing the State - Building our Future” covering the period 2011-2013. In May 2014, the PA released the Palestinian National Development Plan 2014-2016 "State Building to Sovereignty" – it builds on the previous tri-annual national plans and focuses on four key sectors: 1) economic development and employment, 2) good governance and institution building, 3) social protection and development and 4) infrastructure. Work in the government’s new policy agenda covering the period 2017-23 is expected to begin in early 2016.

The PA released its "National Early Recovery and Reconstruction Plan for Gaza 2014-2017" in October 2014 in the aftermath of the devastating conflict of July/August 2014. The implementation of this plan, in particular with the current level of Israeli’s restrictions, remains challenging.

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4 As of 30 September 2015, the PA had further accumulated NIS 1.9 billion of arrears to both the Pension Fund and the private sector.
In October 2015, the Palestinian Council of Ministers approved the merging of the Ministry of Planning with the Ministry of Finance. Following subsequent approval by the President it is to be called Ministry of Finance and Planning.

In 2015, a total of EUR 178 million were committed from the 2015 EU budget, through PEGASE DFS, to help the PA with the payments of PA salaries/pensions (EUR 115 million), of allowances for poor Palestinian families (EUR 50 million) and of arrears for medical referrals to East Jerusalem Hospitals (EUR 13 million).

These funds were complemented in 2015 by the following contributions from EU Members States through PEGASE DFS: DKK 80 million (equivalent to EUR 10.7 million) from Denmark for arrears to East Jerusalem hospitals; SEK 40 million (equivalent to EUR 4.3 million) from Sweden for salaries/pensions; EUR 4.0 million from the Netherlands for salaries/pensions (earmarked to the justice sector); EUR 3.0 million from Finland for arrears to East Jerusalem hospitals; EUR 1.5 from Austria (through assigned revenues) for social allowances; EUR 25.000 from Portugal (also through assigned revenues) for social allowances; EUR 1.0 million from Italy for arrears to East Jerusalem hospitals; and, EUR 1.0 million from Spain for social allowances.

In 2015, other donors (including EU Member States) have also provided additional support to the PA budget either directly or via the World Bank-managed PRDP Trust Fund. The Arab countries direct financial assistance support to the PA in the first nine months of 2015 amounted to NIS 1.05 billion (EUR 0.26 billion), mainly from Saudi Arabia (NIS 710 million - EUR 172.6 million), Algeria (NIS 205 million - EUR 49.8 million) and Iraq (NIS 112.4 million - EUR 27.3 million). The PRDP Trust Fund’s total disbursements in the first 9 months of 2015 amounted to NIS 395 million (EUR 0.46 billion)\(^5\).

### 1.1.2 Stakeholder analysis

The final beneficiary of the action will be the Palestinian population as a whole. Eligible beneficiaries and expenses are identified through a system based on strict and objective criteria set by the EU and based upon requests and information provided by the PA.

Key partners include the PA institutions: Ministry of Finance and Planning, the technical Ministries and other relevant Departments and Agencies of the PA.

All donors contributing to the PEGASE DFS mechanism are considered key stakeholders.

### 1.1.3 Priority areas for support/problem analysis

Volatile context, worsening macroeconomic outlook and continuing donors' dependency

Recent years' worrisome trends in the economy (slowing growth, high unemployment, and large fiscal deficits) have continued. The outlook further deteriorated dramatically in 2014 as a result of the massive destruction in Gaza during "Operation Protective Edge" and related restrictions in the West Bank. The conflict and humanitarian tragedy in Gaza made an already struggling Palestinian economy worse and has put further

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\(^5\) EUR amounts based on December 2015 InfoEuro rate: 1 ILS is equal to 0.24 EUR.
stress on the PA’s fiscal situation. Since October 2015, the aforesaid alarming escalation in violence and tension has yet again affected negatively not only the political stability but also Palestinian economic prospects.

Given increased restrictions on movement and access, support to the Palestinian’s national budget was the main driver of growth in the past. This financing model is, however, not sustainable and there will not be significant sustainable economic growth as long as there is no political horizon ending the occupation, freedom of access and movement to foster private sector investment and development. In fact, the current level of foreign aid is not sufficient to maintain the status quo, without even taking into account the huge needs arising from last year's conflict in Gaza and the potential expansion of governmental responsibilities in Gaza of the "National Consensus Government".

Moreover, it is to be noted that the Government of Israel has frozen the transfer of clearance of revenues in several occasions as a response to political decisions made by the PA. On the one hand, this has forced the PA increase its debt to domestic banks, thereby exposing them further to the public sector and almost exhausting its legal borrowing capacities. On the other hand, the lack of this key source of revenues has forced the PA to delay the payment of salaries and/or to pay them only partially, thus putting the delivery of basic services to the Palestinian population at risk. Depending on political developments, it is conceivable that such situation is repeated in the future.

In its last report to the AHLC dated 18 September 2015, the IMF considered the economic outlook for Palestine to be very challenging and subject to considerable risks. The IMF summarized the situation as follows: "The economic outlook for the remainder of 2015 is highly uncertain, with numerous risks calling for a cautious policy stance. Assuming the political status quo with no change in restrictions and/or security conditions, real Gross Domestic Product (GDP) growth for the West Bank and Gaza (WBG) economy is projected at 2.9 percent, implying stagnant per capita incomes after a drop last year. Main risks to the outlook include an escalation of political tensions and violence, fiscal slippages, and shortfalls in donor aid. Risks could be mitigated—and medium-term prospects enhanced—through progress on the peace front, an easing of Israeli restrictions, scaled-up donor aid, and improved economic collaboration at a technical level between the Palestinian Authority (PA) and the Government of Israel (GoI), including by seeking clarity on the level of the PA’s outstanding electricity sector debts." These conclusions were reached prior to the increased level of violence between Israelis and Palestinians witnessed since October 2015.

### 2 Risks and Assumptions

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantially worsening political and fiscal context with continued occupation, notably the potential</td>
<td>H</td>
<td>Enhanced EU dialogue with Israel, including linking EU co-operation effectiveness in</td>
</tr>
<tr>
<td>Issue</td>
<td>Recommendation</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------</td>
<td></td>
</tr>
<tr>
<td>Freezing of the transfer of Clearance Revenues by Israel, which may lead to increased instability, volatility and of a return to violence in the medium-term growing</td>
<td>Palestine directly to Israeli actions</td>
<td></td>
</tr>
<tr>
<td>Lack of progress of in the reconciliation process and continued regression in democratic and social accountability, with decreased accountability of the PA among the Palestinian population</td>
<td>EU support for the NCG to take leadership both at the technical and political level, as well as policy dialogue and monitoring of progress in reforms Increased support for civilian oversight</td>
<td></td>
</tr>
<tr>
<td>Deterioration of the status quo in Gaza with expected increased level of poverty</td>
<td>Enhanced EU dialogue with Israel and the NCG</td>
<td></td>
</tr>
<tr>
<td>Fluctuations in the exchange rate may have an impact on funding needs</td>
<td>Continuous monitoring</td>
<td></td>
</tr>
</tbody>
</table>

**Assumptions**

- The two-State solution is still the political aim supported by the EU, and the EU continues supporting the PA as part of EU support for a peaceful solution;
- The PA continues to be committed to its statehood agenda and the reconciliation process;
- The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions under the occupation;
- Contributions from EU Member States and other donors will be made available during the implementation period to complement the proposed funds.
- 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.

### 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

#### 3.1 Lessons learnt

The PEGASE DFS mechanism builds upon the successful experience of the Temporary International Mechanism (2006-2007) and is implemented in full co-ordination with the PA and in close co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the PA for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.
The mid-term review of PEGASE conducted in 2009 highlighted the flexibility in planning and implementation, the highly competent and professional staff and the use of well-proven management systems while continuously innovating, which contributed to the success of this mechanism. Final evaluations covering the periods 2008-2011 and 2011-2013 confirmed these findings.

In December 2013, the ECA published a report on PEGASE DFS providing a number of recommendations. Most of these have already been addressed (e.g. using competitive tendering for technical assistance; review of the mechanism aiming at its simplification and applying the relevant simplification measures; establishment of a results-oriented approach – details under section 5.7).

3.2 Complementarity, synergy and donor co-ordination

The Annual Action Programme 2015, in line with the Single Support Framework 2014-2015, was approved in July 2015 for a total of EUR 40 million, for the following support priorities: (i) governance at local and national levels; (ii) private sector and economic development; (iii) water and land development; and, (iv) East Jerusalem. In addition, in 2016, EUR 82 million are being made available for UNRWA’s General Fund. The Annual Action Programme 2016 is currently under preparation.

The EU already provides/intends to support complementary capacity building activities in line with the newly-set Results-Oriented Framework pilot sectors (macro-economic support, public finance management, public administration reform, education, health, and social protection), in terms of: (1) Policy Reform: a) strengthening of the accountability, integrity, and transparency of the public finance system, by supporting 'checks and balances' aspects (tackling both the supply and the demand-side), b) domestic revenue mobilisation - through a support to the PA's Taxpayer Awareness Programme; c) support to the PA's efforts in reducing the burden of net lending (ended in July 2014 – additional support could be envisaged in co-ordination with other donors); d) civil service reform; and, e) strengthening statistics capacities. (2) Service Delivery: through support to the Ministry of Social Affairs. Other EU Member States provide complementary capacity building support in relation to policy reforms and service delivery (in the fields of education and health).

The Palestinian Reform Development Plan -Trust Fund (PRDP-TF) is managed by the World Bank, and its main donors include the UK, France, Norway, Australia and Kuwait. The release of funds is untargeted, but conditional on the implementation of key reforms for: a) improving the PA’s fiscal sustainability; and, b) improving public financial management and accountability. Synergies between PEGASE DFS and PRDP-TF are fostered to the largest extent possible.

Local donor co-ordination has been streamlined in accordance with the conclusions of the AHLC meeting held in December 2005, following a proposal by the European Commission, the World Bank and Norway to reform Aid Management Structures. The EU continues to play a leading role in these structures at all levels. Relevant platforms include: (i) the Fiscal Working Group (co-chaired by the Ministry of Finance and Planning and the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (co-chaired by the Ministry of Finance and Planning and
the UK/Department for International Development (DfID)); (iii) the Social Protection Sector Working Group (co-chaired by the Ministry of Social Affairs and the EU); and (iv) the sub-group on Health Referrals under the Health Sector Working Group.

The EU plays a leading role in local EU Member States co-ordination. Under the framework of the EU Heads of Co-operation meetings, an EU Informal Group on PEGASE DFS was set-up in early 2013 and has become the main forum to jointly monitor progress on the pilot sectors covered by the aforementioned ROF. Since 2013, increased co-ordination with other direct financial assistance donors (mainly the World Bank and the contributors to the PRDP-TF) has taken place.

3.3 Cross-cutting issues

Good governance principles are applied to the implementation mechanism and ownership on the part of the PA is assured. The EU also support complementary capacity building activities focusing notably on the strengthening the public finance system, including 'checks and balances' aspects.

The actions proposed provide services vital to the social and economic rights of the Palestinian population.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of this temporary EU support is to maintain the viability of the two-state solution by avoiding the fiscal collapse of the PA and sustaining basic living conditions of the whole Palestinian population.

The specific objective is to support the Palestinian national development agenda and in particular:

(1) to support the PA to deliver to the Palestinian population essential basic services by maintaining the functioning of the administration;

(2) to improve the economic opportunities of poor, vulnerable and isolated population; and

(3) to support the PA in reducing its budget deficit and implementing its reform agenda while increasing the PA's transparency and accountability.

4.2 Main activities

Three categories of public expenditure are eligible for support under this action for a total amount of EUR 168.0 million, which follows previous Decisions committed every year since 2008 for funds disbursed through the PEGASE DFS mechanism:

Component 1: Supporting Palestinian administration and services (indicative allocation: EUR 115.0 million)

The EU will contribute to the payment of salaries and pensions to the PA civil servants in Palestine (West Bank and Gaza Strip). The objective of this activity is to support the PA to maintain the functioning of the administration and thus deliver to the Palestinian population essential basic services. The objective of this activity is to allow the administration to function and thereby to provide services to the Palestinians in the West Bank and Gaza Strip. The regular contribution to the funding of the wages expenditure
for civil servants also reinforces the PA’s public finance management and public finance reform implementation.

Component 2: Supporting the Palestinian social protection system (indicative allocation: EUR 40.0 million)

The EU will contribute to the quarterly payment of social allowances to poor and vulnerable Palestinian families in the West Bank and the Gaza Strip through the PA’s national cash transfer programme (CTP). The objective of this activity is to ensure the continued assistance to Palestinian families living in extreme poverty, who are dependent on financial aid from the PA. This activity also reinforces the reform of the social protection system and the social cohesion among Palestinians.

Component 3: Support to East Jerusalem Hospitals (indicative allocation: EUR 13.0 million)

The six Palestinian hospitals in East Jerusalem form an integral part of the network of health provision for Palestinians. 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, themselves in and/or worsen the PA’s financial crisis.

In addition, the action will cover the following activities:

Audit, verification, monitoring and visibility of PEGASE DFS programmes (Indicative allocation: EUR 2.5 million)

High standards of control are achieved through audit, verification, control and monitoring systems governing all PEGASE DFS programmes, including the three mentioned above. These systems are implemented under the continuous overview of independent auditors. Ex-ante verifications include identifying PEGASE eligible beneficiaries and/or invoices on the basis of eligibility criteria defined by the EU. Ex-post activities include confirming that the funds have been duly disbursed to the eligible beneficiaries. Moreover, to ensure high standards of verification of individual recipients of funds, and in order to avert any risk of misuse of funds, all direct beneficiaries of contributions channelled through PEGASE DFS are screened against international sanctions lists and other ad-hoc lists through a specialised software. Visibility and outreach activities related to the PEGASE DFS mechanism, notably the VPF programme, will also be organised.

4.3 Intervention logic

Through the systematic, predictable and unconditional contributions to the PA's recurrent expenditures made through the PEGASE DFS mechanism, the EU is making a key contribution to avoiding the financial collapse of the PA itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so, the EU significantly contributes to maintaining the viability of the two-state solution and the PA's state-building activities, notably in terms of service delivery. The funds channelled through the PEGASE DFS mechanism thus contribute to the social cohesion and the economic and security stabilisation of Palestine. The contributions made through any of the three aforementioned components play a key role in supporting the PA to
implement policy reforms aiming at enhancing its fiscal sustainability and improve the accountability, integrity, and transparency of its public finance system, as well as to improve service delivery.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 84 months from the date of entry into force of the financing agreement. The funds under Components 1 to 3 are however expected to be disbursed in total by the end of 2016.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

Direct management will be applied for all components.

PEGASE DFS programmes will be implemented by the Commission through the Office of the European Union Representative to the West Bank and Gaza Strip, UNRWA (EUREP), located in East Jerusalem, in close co-ordination with the PA and EU Member States.

For the aforesaid Components 1, 2 and 3, disbursements will be made by the Commission through specific sub-accounts of PA's Single-Treasury Account to the eligible beneficiaries of the PEGASE DFS programmes detailed in Section 3.2 above, following eligibility checks and verification and control procedures by external experts and international audit firms.

<table>
<thead>
<tr>
<th>Subject in generic terms, if possible</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to the recurrent costs of the Palestinian Authority through PEGASE DFS programmes</td>
<td>Direct Financial Support</td>
<td>3</td>
<td>1st trimester of 2016</td>
</tr>
<tr>
<td>Ex-post and ex-ante audit* and verifications for PEGASE DFS programmes</td>
<td>Services</td>
<td>3</td>
<td>1st trimester of 2017</td>
</tr>
</tbody>
</table>
Financial audits of funds disbursed through PEGASE DFS programmes (years 2016 and 2017) | Services | 2 | 2nd trimester of 2017
---|---|---|---
Software to screen PEGASE DFS beneficiaries against international sanctions lists and other ad-hoc lists (2018-2020 period) | Services/Supplies | 1 | 2nd trimester of 2017
Visibility | Services | 1 | 1st trimester of 2016

* Ex-ante audit on 2016 expenses is covered by ongoing contracts.

### 5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

### 5.5 Indicative budget

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount in EUR thousands</th>
<th>Third party contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Supporting Palestinian administration and services (CSP)</td>
<td>115,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Component 2: Supporting the Palestinian social protection system (VPF)</td>
<td>40,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Component 3: Support to East Jerusalem hospitals (EJH)</td>
<td>13,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Audit, verification and monitoring of PEGASE DFS programmes</td>
<td>2,400</td>
<td>N/A</td>
</tr>
<tr>
<td>Communication and visibility for PEGASE DFS programmes</td>
<td>0,100</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>170,500</strong></td>
<td><strong>N/A</strong></td>
</tr>
</tbody>
</table>

The aforementioned 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 DFS programmes. It is anticipated that, as in earlier years, other donors will make contributions.

Other funds for the necessary technical assistance (aligned to the Results-Oriented Framework), evaluation, audit and visibility actions have also been made available under separate Decisions (notably under decision ENI/2015/038-315 (“Support to Governance at Local and National Levels”) under the Annual Action Plan 2015).
5.6 Organisational set-up and responsibilities

A Financing Agreement will be concluded between the EU and the PA, to be implemented via Direct Management (PEGASE DFS).

The project will be implemented by the EU through EUREP in East Jerusalem.

On the PA side, the leading partners in the implementation of the PEGASE DFS programme will be the Ministry of Finance and Planning in the execution of the payments to final beneficiaries, the Ministry of Social Affairs (Component 2), and Ministry of Health (Component 3).

All contracts and payments are made by the Commission on behalf of the Beneficiary. EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including the following:

- liaise with the Ministry of Finance and Planning concerning eligible expenditures;
- organise and manage the process of validation, control, payment and audit; and,
- be responsible for paying contributions or for supporting payments to be made by individual donors.

Financial experts and qualified auditors will work for the project and will be complemented by other experts as required.

The Ministry of Finance and Planning will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources.

5.7 Performance monitoring and reporting

A comprehensive system of monitoring, control and audit will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide assurance over the use of funds, and the efficient and effective provision of support to the Palestinian authority and population while fully protecting donor interests.

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

As from early 2013, the EU started working towards a Results-Oriented Framework for PEGASE DFS covering both Policy Reforms and Service Delivery, under which EU donors would further co-ordinate the support (in terms of funding, technical assistance and policy dialogue). The ROF is anchored within the EU process towards EU Joint Programming (expected to start in 2017). The basis has been the EU/MS Local Development Strategy (EU LDS), which defines rolling EU operational priorities and an EU/MS division of labour in Palestine. This includes 16 EU/MS Sector Strategy Fiches in line with the Palestinian National Development Plan 2014-2016 and related sectors strategies. The approach is thus a consolidated EU approach, and a step towards Joint Programming. The development of such framework has also been done in close

[13]
collaboration with the PA and the other direct financial assistance donors. Civil society has also been consulted during the process.

The pilot ROF covers six of the above 16 sectors, under the respective EU leaderships in accordance with the local EU Division of Labour:

(i) Pillar I: "Fiscal consolidation and policy reforms": (1) Macroeconomic Support/Fiscal Outlook (sector led by the EU with the Ministry of Finance and Planning as counterpart); (2) Public Finance Management (sector led by the EU with the Ministry of Finance and Planning and the State Audit and administrative Central Bureau as counterparts); and, (3) Public Administration Reform (sector led by the UK with the Prime Minister's Office and the General Personnel Council as counterparts).

(ii) Pillar II "Service delivery": (1) Education (sector led Belgium with the Ministry of Education and Higher Education as counterpart); (2) Health (sector led by Italy with the Ministry of Health as counterpart); and, (3) Social Protection (sector led by the EU with the Ministry of Social Affairs as counterpart).

The EU and the PA signed a Memorandum of Understanding on 25 March 2015, which includes the pilot ROF and its performance monitoring and reporting set-up, for the period 1 April 2015 to 31 December 2015. A quarterly (internal) and yearly (shared with the PA) operational reporting system has been put in place, building notably on internal and external reviews such as reviews by the World Bank and by the International Monetary Fund (IMF) on macroeconomic issues. If need arises, the current pilot phase might be extended to the year 2016.

5.8 Evaluation

A comprehensive evaluation report covering the first three years (2008-2011) of implementation of the PEGASE DFS programmes was carried-out in 2012. An evaluation covering the period 2011-2013 was completed in March 2015. An evaluation for the period 2014-2015, including an evaluation of the pilot ROF, should start in the first quarter of 2016.

Mid-term evaluations are currently planned to take place every 18 months and a final evaluation after a 3-year implementation period in line with the current PA development planning cycle.

5.9 Audit

Financial experts and qualified auditors will be involved in the implementation of PEGASE DFS programmes, which will be complemented by Commission and EU Member States specialists and international or local experts.

Advanced monitoring, control and audit systems are set up for all of PEGASE DFS programmes. All donors contributing to PEGASE DFS programmes have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

In addition to the regular verifications and audits of eligible expenditures to identify and validate payments, annual ex-post audits of PEGASE DFS programmes will be undertaken in accordance with international standards, to provide the maximum level of assurance which will be partly contracted from other decisions related to the PEGASE
DFS activities. Contributing donors will be invited to participate. Contributing donors may also carry out ex-post audits of expenditures covered by their payments.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

Progress of implementation will be communicated regularly to all stakeholders through quarterly financial and operational reports, and an operational annual report. Regular meetings are held with EU Member States in Brussels as well as locally (EU Heads of Co-operation and EU Informal Group on PEGASE DFS meetings).

6 Pre-conditions

None.