1. **IDENTIFICATION**

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>PEGASE: PRDP-related Public Infrastructure Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>€18,000,000</td>
</tr>
<tr>
<td>Aid method / Method of implementation</td>
<td>Project approach – <em>centralised and decentralised</em></td>
</tr>
<tr>
<td>DAC-code</td>
<td>73010</td>
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<tr>
<td></td>
<td>Sector</td>
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<td></td>
<td>Reconstruction, Relief and Rehabilitation</td>
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</tbody>
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2. **RATIONALE**

2.1. **Sector context**

After years of conflict and economic stagnation public infrastructure networks and systems do not offer full coverage, are poor in quality and often unaffordable for the most vulnerable groups of the population. Whilst household connection rates to utilities are high compared to the regional average, actual consumption rates are low due to a combination of supply shortages and inefficient distribution systems. In addition to these structural deficiencies, the low rate of collection of utilities bills (electricity, water) by municipalities and other service providers represents a significant drain on government financial resources. Accordingly, substantial investment in public infrastructure is required as highlighted in the Palestinian Reform and Development Plan (PRDP). The recent (December 27, 2008 – January 18, 2009) Israeli military operation in Gaza resulted in additional severe damages to public infrastructure and utilities. In the aftermath of the conflict the Palestinian Authority prepared the Palestinian Gaza Early Recovery and Reconstruction Plan (GERRP), fully consistent with the PRDP. Whilst the current continuing blockade of Gaza makes it difficult to envisage implementation of significant investment projects, if there were to be a political breakthrough, and the access and movement situation evolves positively in Gaza, a significant part of the action would be dedicated to supporting this plan.

2.2. **Lessons learnt**

Support to public infrastructure has been provided since 2005 through two subsequent financial facilities (2005 Infrastructure Facility, 2008 PEGASE Public Infrastructure) aiming at supporting service provision and infrastructure financing at both national and local levels. Within the prevailing political and security situation, the flexibility of the approach has proven to be a key element of success. Given that Israeli restrictions in Gaza, and to a much lesser extent in the West Bank, are determinant factors for project feasibility, it is important to be able to reallocate resources to other projects in the pipeline when obstacles arise.
2.3. **Complementary actions**

The available funds under the ongoing facilities (2005 and 2008), which have all been allocated, will complement the action in 2009. Several donors, including EU Member States, the United States, Norway and the World Bank are also supporting the infrastructure sector at national and local levels. The World Bank, France, Germany and Japan have substantial funds available in the water and sanitation sub-sector; the World Bank, Norway and Sweden invest significantly in the Electricity sub-sector; the World Bank and a number of smaller donors contribute to improving Solid Waste Management. A number of donors also contribute to the Municipal Development and Lending Fund for municipal infrastructure.

2.4. **Donor coordination**

High level international donor coordination takes place at the level of the Ad Hoc Liaison Committee (AHLC) which last met in Oslo on 8 June 2009. At the local level donor coordination takes place in various forums under the Local Development Forum (LDF) and its four "Strategy Groups" (governance, economy, social and humanitarian affairs, infrastructure), each co-chaired by a different lead donor and PA Ministry. Beneath these a number of sector working groups (SWG) have been established, which are more operational forums for coordination and alignment of donor activities for the active stakeholders in each sector. More specifically, sector working groups exist for water, electricity, municipal development and waste management.

The European Commission, as previously mentioned, as well as individual EU Member States, play a leading role in these forums. In addition EU policy is coordinated through regular meetings of the EU Heads of Cooperation.

3. **DESCRIPTION**

3.1. **Objectives**

The overall objective of the action is to support governmental institutions at both national and local levels for infrastructure financing and sustainable, high-quality service delivery.

Priority will be given to interventions ensuring that public infrastructure and utilities are managed on a commercially-oriented and financially viable basis and, as far as possible, increasing the level of private sector investment and participation in the sector. Another very important objective is employment generation through project implementation. Were Israel to ease the blockade measures imposed on the Gaza Strip, a specific focus will be put on reconstruction in this part of the West Bank and Gaza Strip.

3.2. **Expected results and main activities**

The main activities will be defined in coordination between the Palestinian Authority and the Commission, depending on the feasibility of investment in Gaza and on the PA's priorities as set out in the GERRP and the PRPD.
Under the various PRDP programmes in the infrastructure sector, precedence will be given to the electricity sector, to the water and waste water management sector and to the solid waste management sector. In addition, infrastructure projects could be developed to support other important PRDP priorities where necessary.

The choice of public infrastructure programmes will also be guided by employment generation considerations. The upgrading of small and medium sized infrastructure, solid waste management systems, for instance, can have a significant effect on the labour market and the daily subsistence of large number of recipients, while meeting an important infrastructure priority as set out in the PRDP.

3.3. **Risks and assumptions**

Internal PA stability and the balance between the national and local levels is an issue for the success of the action, which will require political support at all levels. A worsening political situation resulting in continued closures, curfews and incursions which would limit or prohibit project implementation is a crucial issue. This risk can be mitigated i) by donors’ intervention at a political level ii) by building on appropriate delivery mechanisms. The implementation of infrastructure projects in the Gaza Strip will remain fully subject to the evolution of the closure regime imposed by the Israeli government.

3.4. **Crosscutting Issues**

Environmental sustainability will be taken into consideration as most projects will address problems related to energy, water and waste water or solid waste management. Environmental impact assessment of projects will be performed where necessary within feasibility studies. Good governance principles will guide the implementation mechanisms. Particular attention will be paid to ensuring that to the maximum extent possible, women participate in and benefit from the projects to be implemented. The PA’s community-based approach to identifying local priorities for public investment will be central to the selection of priorities.

3.5. **Stakeholders**

The final beneficiary of the action will be the Palestinian population. The National Authorities: Government Authorities, notably the Prime Minister’s Office and the Ministries of Finance and Planning as well as Palestinian Water Authority, Palestinian Energy and Natural Resources Authority, Regional Utilities such as Electricity or Water distribution companies, and similar bodies, as well as Local utilities, Village Councils, Joint Service Councils will benefit from capacity building as main basic service providers and/or implementing agencies. PEGASE will provide technical assistance to these bodies to assist in the identification, design and implementation where appropriate.

4. **IMPLEMENTATION ISSUES**

4.1. **Method of implementation**

Partial decentralised management through the signature of a financing agreement with the PA Government. Procurement and contracts award procedures will be decentralised. Centralised management will apply for technical assistance, identification, studies, evaluation and audit.
The Commission controls ex-ante all the procurement procedures except in cases where programmes estimates are applied, under which the Commission applies ex-ante control for procurement contracts >50,000 EUR and may apply ex-post for procurement contracts • 50,000 EUR. The Commission controls ex-ante the contracting procedures for all grant contracts.

Payments remain centralised except in cases where programmes estimates are applied, under which payments are decentralised for operating costs and contracts up to the ceilings indicated in the table below. In case substantial decentralised management would apply following a decision by the Sub-Delegated Authority, and an assessment under FR Article 56.2, these ceilings will no longer apply.

The Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

<table>
<thead>
<tr>
<th>Works</th>
<th>Supplies</th>
<th>Services</th>
<th>Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 300,000 EUR</td>
<td>&lt; 150,000 EUR</td>
<td>&lt; 200,000 EUR</td>
<td>• 100,000 EUR</td>
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</tbody>
</table>

The action can also be implemented through investment grants, interest rate subsidies and technical assistance among others.

West Bank and Gaza Strip is facing a crisis situation, as defined in Article 168(2) of the Implementing Rules of the Financial Regulation. As a result, negotiated contracting procedures or grant direct award may be used in accordance with applicable provisions.

4.2. Procurement and grant award procedures / programme estimates

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 ENPI Regulation.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full: the maximum possible rate of co-financing for grants is 100% given the crisis situation. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the
Financial Regulation applicable to the general budget of the European Communities.

– Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.3. **Budget and calendar**

The budget of the action, which is 100% financed by the Commission, includes (on an indicative basis):

– project activities: €15,500,000
– identification and studies: €2,000,000
– audit and evaluation: €500,000

The implementation of the project will last 60 months (5 years) from the European Commission's Signature of the Financing Agreement.

4.4. **Performance monitoring**

The action will be monitored with reference to standard performance indicators relevant to the action. An adequate day-to-day project monitoring will be carried out.

4.5. **Evaluation and audit**

An external final evaluation of the action will be performed.

An external final audit, covering all the activities of the action, will also be carried out in accordance with the EC procedures. Where appropriate, external audits of specific projects will be undertaken.

4.6. **Communication and visibility**

The action will follow the visibility guidelines of the Commission and will be included in the specific PEGASE communication strategy.

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