

THE EUROPEAN UNION'S PEGASE MECHANISM: AT THE SERVICE OF THE PALESTINIAN POPULATION, OPEN TO ALL DONORS



a guide to donors wishing to contribute through pegase
to the early recovery and reconstruction of gaza



Jerusalem, 2 March 2009



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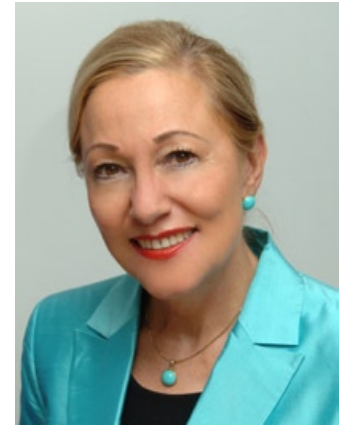
PEGASE and its predecessor TIM (Temporary International Mechanism) have channelled support to the Palestinian people from:

The European Union, Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden, the United Kingdom, Canada, Norway



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Foreword

My predecessor and friend, Chris Patten, writing recently of his despair at the tragic events of December 2008 and January 2009, asked, “Who is there now who can still light a candle in the dark?”

The people of Gaza do not deserve to live – metaphorically or in reality – in darkness. Human beings, fundamentally the same in every way as you and me, they deserve neither the real nor the mental imprisonment which hatred, fanaticism and conflict have brought in their ugly wake. The people, and in particular the children, of Gaza deserve, instead, the light of reason, the light of hope. They deserve freedom from fear, freedom from want, freedom from hatred.

As we wrack our brains about how the international community can respond to this dark tragedy, I believe we must keep three things at the forefront of our minds.

First, the light of reason must shine on all efforts to bring about Palestinian unity. The growing separation of the people of Gaza from the people of the West Bank and the political divisions within Palestinian society cast a sombre shadow over all attempts of the Palestinian Authority and the international community to improve the quality of life of Palestinians. And our efforts will bring only limited benefit if Palestinian unity in pursuit of peace is not achieved.

Second, the light of hope must illuminate the path which leads to peace between Israel and the Palestinians. If we fondly imagine that sustainable recovery, development, prosperity and justice can be brought about in the midst of ongoing occupation and unresolved conflict, we will simply repeat the mistakes of the past.

Third, we must not let the light we shine today on the problems of Gaza allow the problems of the West Bank to be plunged again into obscurity. The priority we now attach to helping the people of Gaza must not jeopardise the real achievements that the Palestinian Authority, in partnership with the international community, has made in the past 18 months in delivering greater security, greater – albeit modest – prosperity and a better quality of life for the Palestinians of the West Bank.

When I visited the occupied Palestinian territory in November 2007, I made the promise: “The European Commission will never let the people of Gaza down.” It is a promise that the European Commission has kept, and the PEGASE mechanism that we created in 2008 to deliver support to the Palestinian people in partnership with the Palestinian Authority has been central to achieving that.

Basing ourselves on the Palestinian Authority’s Gaza Early Recovery and Reconstruction Plan, the European Commission is now proposing to put the PEGASE mechanism at the service of the Palestinian people and at the service of donors in new ways, to meet the new challenges we confront. PEGASE represents a unique partnership between the Palestinian Authority and the European Union and its Member States. I would like this partnership to develop to embrace all countries and institutions which share the aim of peace, freedom, security and justice for the all of the Palestinian people.

In this way, maybe we can help keep the flame of hope alight.

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I. What is PEGASE?

PEGASE is the European Union's mechanism to support the Palestinian people through implementation of the Palestinian Authority's Reform and Development Plan (PRDP). It includes:

- i) The direct delivery of targeted and carefully monitored direct financial support to the Palestinian population, either through the PA's own Single Treasury Account (STA) or via direct payments to eligible companies and individuals in full transparency, co-operation and agreement with the PA;**
- ii) Assistance for the PA's implementation of medium to large-sized development projects as set out in the PRDP, with substantial technical assistance and careful control and monitoring of contracting and payment.**

PEGASE is a mechanism which is open to all donors, including those outside the EU, and international organisations.

Donors who contribute to PEGASE contribute to the considerable reduction of transaction costs for the Palestinian Authority and to increased ownership, transparency and effectiveness, in line with their Paris Declaration undertakings.

I.1 Background

In February 2008, as a response to the Paris Donor Conference and the Palestinian Authority's (PA) Palestinian Reform and Development Plan (PRDP) 2008-2010, Commissioner Ferrero-Waldner launched the European Union's PEGASE mechanism. It built on the experience of the Temporary International Mechanism (TIM) to provide a means for the European Commission, together with participating donors, to direct financial assistance to support implementation of the PRDP. It continued to implement TIM programmes of allowances to the PA's civil servants and pensioners, delivery of fuel to the Gaza Power Plant, payment of social allowances to the most vulnerable Palestinian Families and the payment of the PA's arrears to the private sector. In addition to these programmes, PEGASE provided the vehicle for the re-launch of a comprehensive programme of development assistance, covering all four sectors set out in the PRDP.

Since 1 February 2008, the PEGASE mechanism has disbursed (at 31 January 2009) €409.2 million in direct financial support. It has also managed over €131 million in financing from 14 Member States of the EU of which 78% was disbursed in the same twelve month period. It has thus managed total commitments of financing from the EU and other donors of over €551 million. All of its programmes benefit both the Gaza population and the population of the West Bank.

PEGASE operates in close co-ordination and co-operation with other aid delivery mechanisms (UNRWA, transfers to the PA's STA, contributions to the World Bank Trust Fund). It provides donors who wish to target their assistance to the PA with a high level of transparency and of external control and reporting.

This paper describes the way in which the European Union uses PEGASE to deliver support to the Palestinian population, both in the West Bank and in Gaza, and the ways in which PEGASE will be used to deliver vital support, immediately and during the early recovery period, as well as to stimulate the economy and reduce aid dependence. It also sets out, in outline, ways in which PEGASE could be used to assist in reconstruction in Gaza, through investment in infrastructure and equipment.

As well as describing the programmes which will be implemented, the paper sets out the systems of payment, control and audit which assure transparency, predictability and reliability to the PA and to donors.

2. Reinforcement of existing PEGASE programmes to support the population of Gaza

The European Union and the PA intend to focus PEGASE in the first instance on activities that will have a direct, immediate impact on the wellbeing of the population of Gaza and on the capacity of the PA to continue to provide essential public services to them. They will therefore reinforce and extend existing PEGASE programmes within the PRDP context to deal with the most urgent needs.

2.1 PEGASE Direct Financial Support

2.1.1 Support to Essential Public Services

Every month, PEGASE ensures that about 30% of the total demand for electricity in the Gaza Strip is met, through the delivery of industrial diesel to the Gaza Power Plant. Attracting financing from Germany, Belgium and Ireland as well as the EU, it has delivered an average of 8 million litres of fuel per month in the past 12 months, benefitting the population of Gaza, at a cost of almost €97 million.

Through PEGASE we are committed to ensure fuel deliveries to generate electricity for the people of Gaza are uninterrupted throughout 2009 and at the beginning of 2010. All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.a*)

2.1.2 Vulnerable Palestinian Families

Every three months, in full co-operation with the Ministry of Social Affairs, PEGASE makes payments of about €200 to the poorest and most Vulnerable Palestinian Families, of whom about 24.000 (over 50% of the total and representing more than 150.000 people) are Gaza residents. In the past year, about €16.7 million was provided in VPF payments to the people of Gaza. Italy used the PEGASE mechanism to finance the regular payment in December 2008, and will finance the regular payment in March 2009. In the light of the desperate situation of the population of Gaza, the European Commission has agreed with the PA to finance an additional cash payment in March 2009. Austria also contributes to the programme. PEGASE allowances are made on a completely non-political basis and the Commission has robust systems in place which ensure that all funds exclusively reach the population intended.

The European Commission is working energetically to overcome restrictions on the transfer of cash from



the West Bank to the Gaza Strip and plans payments in Gaza (and the West Bank) in June, September and December 2009 in addition to the planned supplementary payment.

The European Commission is working with the Ministry of Social Affairs to evaluate families who did not previously benefit from the VPF scheme who, following the conflict, might now become newly eligible for the allowances. A financial reserve to allow for additional payments to these new beneficiaries will be constituted.

Through PEGASE we are committed to continue to deliver regular and predictable allowances to the very poorest people of Gaza in 2009 and the beginning of 2010. All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.b*).

2.1.3 Civil Servants and Pensioners

Every month, PEGASE makes a contribution to the Palestinian Authority's payment of salaries and pensions to Gaza and West Bank employees. In the past 12 months, the average monthly contribution was €21.25 million, benefitting around 78.000 civil



servants and pensioners, of whom about 28,500 live in Gaza. PEGASE has attracted financing from Finland, Hungary, Ireland, Luxembourg, Malta, the Netherlands, Slovenia, Spain, Sweden and the United Kingdom. The PEGASE contribution is non-political. The Commission has robust systems in place which ensure that all funds exclusively reach the population intended.

The PA is facing difficulties in making salary payments and requires considerable additional resources to be able to meet its obligations to its employees. Given the size of the PA's external financial requirement, PEGASE will continue to assign a high priority to making a contribution to the payment of salaries and pensions both in Gaza and the West Bank throughout the year.

Through PEGASE we are committed to ensure that civil servants are paid to provide vital and uninterrupted public services to the people of Gaza. All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.c*).

2.1.4 Arrears

About €24.3 million has been provided to the PA by the EU and Spain over the past year to pay arrears to Palestinian businesses, of which €10.5 million went to beneficiaries in Gaza. The PA has now almost completely liquidated these arrears. Should arrears begin to accumulate again, this programme could be restarted.

In the 12 months from February 2008 to January 2009, payments for Direct Financial Support to Gaza totalled €218 million, more than 50% of the payments made by PEGASE. Despite the siege, the PEGASE mechanism has been an effective source of basic public services and vital cash inflow for Gaza.

In 2009, the European Union will continue and, if other donors join us, reinforce all of these programmes for the benefit of the population of Gaza. See Annex I for the details of the financing needed to do this.

2.2 Other PEGASE operations which benefit the Gaza population and support to refugees in Gaza

2.2.1 Other PEGASE operations

In addition to PEGASE's direct financial support programmes, the European Commission uses PEGASE to deliver support for 22 of the 29 programmes implemented by the PA within the four sectors within the Palestinian Reform and Development Plan. All these PEGASE programmes are designed to benefit Gaza as well as the West Bank when this is possible, taking into account the constraints of access to the Gaza Strip.

- In the Governance sector, PEGASE programmes support the rule of law, public financial management, and technical support to key central Government institutions.
- In the Social sector, PEGASE supports education and training and the development of a unified and targeted social protection system.
- In Economic and Private sector development, PEGASE implements major programmes of support for SMEs and for investment in trade infrastructure and services.
- In the Public Infrastructure Development sector, PEGASE is supporting major investments in electricity, water and wastewater management, solid waste management.

If and when access conditions allow, these PEGASE programmes support the Palestinian population both in Gaza and the West Bank.

The European Commission has significant financing available for investment in the airport and investment in the North Gaza Sewage Treatment Plant at Beit Lahia. Both projects remain blocked but the EU is ready to start these two projects again together with the international community as soon as access conditions are met.

2.2.2 Refugees

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) is one of the European Commission's main partners. Since 1971, the European Union has provided humanitarian and developmental assistance to Palestinian refugees in the West Bank and Gaza Strip, Jordan, Lebanon and

Syria. Since 2004, it has contributed more than €100 million annually to UNRWA's operations. This financial support, combined with contributions from individual EU Member States, represent more than half of UNRWA's total budget required to sustain the needs of 4.6 million refugees.

Over three-quarters of the current estimated Gaza population of some 1.4 million are registered refugees; representing 22.42 per cent of all UNRWA registered Palestine refugees. Across UNRWA's five fields of operations, a special focus has been placed by UNRWA with regards to poverty alleviation within the refugee population, particularly in Gaza. The Agency is implementing a specific programme towards this purpose, largely funded by the EU, to provide food and cash aid to approximately 255,404 vulnerable refugees in all five fields.

In addition, emergency aid for the neediest Palestine refugees is provided by the Agency when crises emerge (such as the consequences of the Intifada since 2000, the Israeli-Lebanon conflict in 2006, and the recent crisis in the Gaza Strip in late 2008 and early 2009). These emergency operations consist mainly of the provision of food aid, shelter provision and temporary job creation. The European Commission's Humanitarian Aid Directorate General - DG ECHO is one of the main financial supporters of these humanitarian interventions.

Special projects targeting the Agency's social safety net scheme, Gaza camp sanitation and rehabilitation or specific sector support such as education, waste water, or institutional reform of the Agency complement the above mentioned support and are largely funded by the European Union.

With respect to the social safety net scheme for 2009, the European Commission has already mobilised €18 million from its global Food Facility, and is seeking a second tranche of funding later in the spring which will bring the total amount available up to €40 million, mainly benefiting the refugee population of Gaza.



3. New PEGASE programmes designed to provide immediate relief to the population of Gaza

In addition to reinforcing existing PEGASE programmes, the European Union and the Palestinian Authority also wish to put in place new programmes that can contribute rapidly to the most urgent needs of families affected by the conflict.

The same robust systems of control and verification and screening of beneficiaries that apply to existing PEGASE programmes will also apply to all new programmes (see annex IV).

3.1 Payment of electricity bills

Given the economic devastation of Gaza, due to the prolonged siege since July 2007 and the recent conflict, most households and businesses in Gaza are now unable to pay their electricity bills. The cost of these unpaid bills is paid by the Palestinian Authority in the form of deductions each month from the clearance revenues due from the Israeli authorities. These deductions aggravate the financial situation of the PA and reduce its capacity to provide basic public services to people in Gaza and in the West Bank. They, in effect, impose a heavy indirect financial burden on the Palestinian taxpayer in the West Bank to compensate for the effects of the siege and conflict in Gaza.

PEGASE will establish a new programme to reimburse the Palestinian Gaza Electricity Distribution Company (GEDCO) on a monthly basis directly for the cost of electricity imported from outside Gaza and sold on to Gaza consumers.

Participating donors will pool their funds for this programme in a sub-account of the PA's Single Treasury Account (STA). On the basis of invoices received by GEDCO from the wholesale suppliers of electricity and certified by PEGASE auditors as being eligible for payment, authorisation will be given for the transfer of the eligible amount from the sub-account of the STA to GEDCO. PEGASE auditors will perform an ex post audit of GEDCO's settlement of invoices.

During this operation, GEDCO will distribute the corresponding amount on a pro rata basis amongst Gaza consumers by means of a credit note on their electricity bills.

The programme will last for a period of nine months, after which the PEGASE contribution will be phased out over a further period of 9 months. During the phasing out period, GEDCO will invoice its customers for an increasing proportion of the amount of electricity actually used.

In parallel, the European Commission will work closely with the Ministry of Finance, PENRA, and other interested donors on a medium-term action plan to improve performance in the collection of electricity bills as soon as the economic conditions in Gaza allow.

All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.d*).

3.2 Medical referrals

Patients who were heavily wounded during the course of the Gaza conflict have had to be treated in specialised hospitals in countries within the region and in the West Bank.

In order to meet their treatment costs, participating donors in this PEGASE programme will deposit funds in a sub-account of the PA's STA.



National authorities or individual hospitals will submit the medical bills and other supporting documentation to the PA's Ministry of Health. The European Commission and the PA will jointly establish eligibility criteria under the programme. The Ministry of Health, having performed the relevant checks of eligibility under the programme, will provide PEGASE auditors with the invoices, together with all supporting documentation. PEGASE auditors will certify the eligibility of the invoices under the criteria established for the programme and will issue periodic reports on batches of invoices.

Acting on the basis of the reports received, authorisation will be given for the transfer by the PA from the sub-account established for this purpose to the relevant national authority or hospital of the amount equivalent to the eligible expenditures.

For the cost of referrals of patients from Gaza to hospitals in the West Bank (including Jerusalem), authorisation will be given for the PA to settle the invoices directly with participating hospitals from the sub-account.

This programme could also be extended to poor patients suffering from serious and costly medical conditions.

All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.e*).

3.3 Children's wellbeing

Children constitute about a half of the population of Gaza and have been particularly affected by the conflict.

Seven schools in Northern Gaza were totally destroyed and around 157 primary schools have been damaged. All schools were closed between 27 December and 24 January 2009 causing 540,000 learners from pre-school to university to miss out on their education programme.

An Education cluster under the co-leadership of UNICEF and Save the Children Alliance has coordinated the rapid needs assessments and submitted a comprehensive list of 17 emergency projects to the Gaza Flash Appeal totalling around \$46 million. Projects include back to school campaigns, small scale repairs and provision of temporary learning spaces, furniture as well as teaching and learning equipment,

psycho-social and mental health support to learners and educators, equipment and facilities for recreational activities as well as support and capacity building for education personnel at various levels.

In addition, food insecurity is a particular concern for children, and a projected caseload of 8,650 children with severe acute malnutrition has been identified prior to the crisis. This number is likely to increase and it will be necessary to expand school feeding projects and to support local health structures to cope with severe malnutrition.

A child protection response will also aim at preventing children from exposure to further violence, and ensuring that mechanisms and services to respond to such violence are in place as well as ensuring awareness on the risks of UXO and Explosive Remnants of War (ERW). Activities will include delivery of social protection, outreach programmes, support to child protection actors and provision of safe play areas.

The Gaza Flash Appeal provides the elements upon which a comprehensive response for children in Gaza can be developed within the PRDP context. PEGASE support will help mobilise and channel funds to these programmes, especially those aiming at strengthening the Palestinian education and health structures.

In addition, PEGASE will organise two additional cash payments of about €200 in June and September in order to help the most vulnerable Palestinian families in Gaza (see 2.1.2 above) to meet recurrent costs (food, health, equipment, school expenditures etc.).

All donors are welcome to participate in this programme in 2009 (*financing needs estimated in annex I.f*).



4. New PEGASE programmes designed to cover the period from immediate relief and recovery to reconstruction

The European Union will establish two new PEGASE programmes of business compensation, the first aimed at immediate compensation giving a rapid “kick-start” to the economy and safeguarding employment, the second, at a later stage, aimed at developing the range of financial and other services available to businesses in the light of the specific needs of the Gaza economy, and aimed at economic recovery and the generation of new employment.

4.1 PEGASE for SMEs and micro-enterprises

The damage to micro-enterprises, such as shops, workshops, agricultural smallholdings, etc. is considerable. Many Small and Medium-sized Enterprises (SMEs) have been completely destroyed. Such enterprises can play a vital role in immediately reducing Gazans' aid dependency and putting in place the very first steps towards the restoration of economic activity. However, it is highly unlikely that such enterprises would be in a position to take out loans in the form of normal bank loans and micro-credits.

The Palestinian Authority is co-operating with the European Commission to develop a programme, under which damage to buildings, land, crops, capital equipment will be compensated in the form of a one-off grant. Economic losses incurred by enterprises which were not directly damaged in the conflict but which have suffered due to the prolonged siege and which were exacerbated by the conflict could also be eligible for compensation at a later stage.

The European Commission and other participating donors will establish a fund, held by the Palestinian Authority in an interest-bearing sub-account of the STA, to compensate enterprises for damage suffered during the conflict.



The Palestinian Authority is establishing a database of enterprises affected by the conflict and the financial value of damage suffered. The European Commission is providing specialised technical assistance for this work, including validation of the data based on field verification of sample data from the database. The PA will, in consultation with the Commission, establish objective criteria for eligibility for compensation under the programme. On the basis of applications for grant compensation made to the PA via commercial banks, the PA will on a regular basis produce lists of eligible beneficiaries and the proposed amounts of compensation to be paid. PEGASE will provide the Palestinian Authority with special technical assistance to manage the caseload.

On the basis of the lists provided, PEGASE auditors will:

- i) verify the correct application of the agreed criteria for eligibility under the scheme by the Palestinian Authority
- ii) on the basis of their findings under i) above, issue a report on each list provided.

Following receipt and examination of the audit report, the European Commission will authorise the PA to make transfers to partner commercial banks to provide direct compensation payments¹ to the beneficiaries, subject to the availability of donor funds for the programme.

PEGASE auditors will conduct an ex post audit for each list.

All donors will be welcome to participate in this new programme (*financing needs estimated in annex I.g*).

¹ Compensation payments made with donor funds will not in any way prejudice the legal rights of businesspeople to claim reparations

4.2 PEGASE for economic recovery and employment generation

Economic recovery will depend above all upon the opening of the crossings and the revival of normal trade. But devastated enterprises will also need new credit and means of developing their businesses further. At the same time, whilst short-term employment opportunities can be provided through donor programmes, it is the private sector which will create permanent new jobs for the Gaza of the future.



In the course of the damage assessment being conducted by the Palestinian Authority and European Commission, their respective experts will work closely with businesspeople, business organisations and institutions and the banks in order to develop a PEGASE programme aimed at providing the support needed for sustainable private sector recovery and development, focusing primarily on the SME sector.

The programme will use the Palestinian banking sector and other financial institutions, as well as draw on the experience and resources of successful existing programmes, whilst adapting them to the very specific post-conflict needs of the Gaza economy. In particular, the PEGASE-supported European Palestinian Credit Guarantee Fund, an example of a successful credit guarantee fund currently operating in the occupied Palestinian territory, will provide a starting point.

This fund operates through local banks and provides guarantees for loans extended by these banks to SMEs both for capital expenditure and working capital. The fund helps stabilise the Palestinian economy and safeguard employment and income in the private sector by preserving market-economy structures in the SME and financial sectors. The fund's target group are SMEs with a maximum of 20 employees. The loan ceiling is fixed at \$100,000. Borrowers generally lack sufficient bankable collateral but have a business plan generating sufficient cash flow for repayment. The fund guarantees 60% of the loan principal and 60% of the foregone interest income during the first three months of arrears. In total around 700 loans have now been guaranteed, for an amount exceeding \$19 million. However, only a single loan guarantee has been provided in Gaza due to the current difficulties in operating there. Negotiations with potential new banking partners continue with a view to extending the geographical reach of the scheme.

In adapting this programme, or designing a complementary window for Gaza, specific problems to be addressed in the design of the programme include:

- The lack of collateral, or relatively poor creditworthiness, of Gaza enterprises;
- Inability to service existing loans;
- Necessity to reorient production to new markets or higher added value activities.

The European Union will also examine the needs of existing microfinance programmes to deal with the specific needs of microenterprises.

All donors will be welcome to participate in this new programme (*financing needs estimated in annex I.h*).

5. New PEGASE programmes designed for public investment and reconstruction

Conditions on the ground currently do not allow the implementation of specific activities for the reconstruction of destroyed physical and socio-economic infrastructure in Gaza.

However, PEGASE has a strong public investment (for both infrastructure and equipment) component which, as soon as the conditions allow, will be put at the service of donors who wish to participate in the reconstruction. Ongoing PEGASE public investment projects have been conceived largely in the context of the PA's Community Development Programme and have immediate impact and employment generation as important features in project identification and implementation.

The original development budget estimates in the PRDP took into account a realistic assessment of the availability of external financing for recurrent and development expenditure over the period 2008-2010 but did not incorporate the immediate needs created by the Israeli assault on Gaza. In light of this, the 2009 budget will be revisited. The Palestinian Authority has already started preparations for a consultation exercise on both the PRDP itself and the 2009 Development Budget in order to help verify the current development programs and projects, donor funding arrangements and obtain a more realistic forecast of likely disbursement for 2009-2011.

At the same time, the European Commission, through PEGASE and in close co-operation with the PA, is currently conducting an enhanced damage assessment, which will build on the PA's Gaza Early Recovery and Reconstruction Plan to identify and elaborate specific programmes which could be financed through the PEGASE mechanism in the context of the revised PRDP. These programmes will not be limited to repairing damage sustained during the conflict (although this will be a priority), but will also include longer-term projects to address the years of under-investment in Gaza's public infrastructure. The areas where PEGASE will focus its deep experience and potential added-value are:

- Electricity: the network is fragmented with many distribution systems and a high dependence on Israel. PEGASE is already providing some of the equipment required for urgent repair to the

distribution network. The Gaza Power Plant (GPP) could be more efficient if run on gas as intended. Further investment will be foreseen under the PRDP "Electricity Sector Investment" (ESI) programme which focuses on upgrades of networks, control centres, and installation of pre-paid meters.

- Solid Waste Management: lack of appropriate dumping sites and waste management equipment is a long-standing problem and the volume of rubble arising from the conflict adds to the challenge. The PRDP "Solid Waste Management" (SWM) programme focuses on the development of affordable and sustainable regional waste management located in few strategic and accessible locations, and the planned projects in Gaza now assume a higher priority than ever before.



- Water and waste water management: this is a key issue with limited availability of water and poor quality. Sewage infrastructure in north Gaza is a key problem, as is salination. Treatment plants are not functioning or are highly inefficient and 60%



of untreated waste water is pumped into the sea off Gaza. The Beit Lahlia sewerage lake is a key component of the PRDP “Water and Wastewater Management” (WWM) programme which also includes rehabilitation of networks, new wells, as well as policy, coordination, and regulatory and engineering capacity.

- **Roads:** damage sustained during the conflict to the already degraded road network was substantial. Road repair is essential for economic recovery and will reinforce PEGASE support for the restart of the private sector. Projects will be identified within the context of the PRDP programme “Road Improvement” (RI).



Depending on the enhanced assessment and following further donor coordination under the guidance of the PA, border crossings and public buildings will also be envisaged as areas of support, as soon as the conditions allow. If the proposed housing reconstruction programme faces a shortage of funds, donors could also use PEGASE to direct financing to it.

Two specific modalities are available both to the Member States of the EU and to all other donors².

5.1 Contribution to a pooled infrastructure facility

Donors will deposit funds for public investment in a single sub-account of the PA’s Single Treasury Account. The use of these funds will be governed by standard Memoranda of Understanding (see Annex VI) concluded between the donor and the European Commission on the one hand, and the donor and the Palestinian Authority on the other. If they wish, donors may indicate a sector (e.g. energy, water, transport) to which their funding should be allocated under this programme: given that financing is pooled it will not,

however, be possible to allocate funding for a specific project.

The Palestinian Authority will then be responsible for all stages of the project identification, tendering, contracting and overseeing implementation by the contractors. Technical assistance to the PA is provided by the European Commission through PEGASE. Project identification is performed by a Steering Committee consisting of the European Commission and the relevant PA authorities: participating donors may attend meetings of the Steering Committee as observers. In any event, the minutes of meetings of the Steering Committee are transmitted to participating donors.

Ex ante and *ex post* control and verification procedures will be carried out by PEGASE auditors.

5.2 Contribution by a single donor to an infrastructure facility

For donations in excess of €10 million only, a single donor may deposit funds for public investment in a numbered sub-account of the PA’s Single Treasury Account for funds from that donor only. The use of these funds will be governed by standard Memoranda of Understanding (see Annex VI) concluded between the donor and the European Commission on the one hand, and the donor and the Palestinian Authority on the other. If it wishes, the donor may indicate a sector (e.g. housing, energy, water, education) or programme to which its funding should be allocated.

The Palestinian Authority will then be responsible for all stages of the project identification, tendering, contracting and overseeing implementation by the contractors. Technical assistance to the PA is provided through PEGASE. Project identification is performed by a Steering Committee consisting of the European Commission and the relevant PA authorities: the donor attends as an observer. The minutes of meetings of the Steering Committee are transmitted to the donor.

Ex ante and *ex post* control and verification procedures will be carried out by PEGASE auditors.

All donors will be welcome to contribute to these public investment and reconstruction programmes under one of these two modalities (*financing needs estimated in annex I.i*).

² It should be noted that the same mechanisms are available to donors who wish to contribute to infrastructure projects in the West Bank.

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