

Foreword

National Financing Plan (NFP) 2004 for the West Bank and Gaza Strip under articles 19 08 02 and 19 08 03

1. INTRODUCTION

In view of the prevailing conditions, co-operation priorities for the Palestinian territories have been established on an ad-hoc basis since 2001. As a result no country strategy paper or national indicative programme is available for West Bank Gaza and our assistance has been concentrated on addressing most urgent needs.

The proposals presented here should be considered in conjunction with the other considerable support given to the people of the West Bank and Gaza strip. This concerns in the first place the Commission's support to UNWRA, amounting to €60.65 million in 2004, as well as humanitarian aid (about €30 million during the last three years) and food aid (about €20 million on average during the last three years). This type of assistance is expected to continue.

The principal orientation of our support remains focussed upon addressing urgent needs while at the same time making a contribution to the creation of a viable and democratic Palestinian state. This implies that a balance should be found between urgent support and strategic institutional and development assistance.

The proposed programme is also consistent with the recommendations and conclusions of the meeting of the Ad-Hoc Liaison Committee held 13 December 2003 in Rome. The meeting of 14 donor delegations, called for Israel to take immediate steps to ease the humanitarian plight of the Palestinians in accordance with the Road Map, as well as to create a more predictable and secure operating environment for the donor and aid community. It was also stressed that the Palestinian Authority should take more decisive measures against terror and should continue to forge ahead with reforms. At this meeting World Bank President James Wolfensohn, suggested the setting up of special trust fund which would "support the political process and ensure that a measure of hope can be developed for the Palestinian people". A substantial contribution of the Union to this "Public Financial" Management Reform Trust Fund is one of key components of the 2004 National Financing Plan now submitted for the Med Committee's opinion.

2. MAIN CHARACTERISTICS OF THE NFP 2004

With a view to ensuring continuity, the 2004 NFP programme builds on our earlier co-operation programmes. The total envelope for the two budget articles concerned (MEDA (19.08.02) and Peace Process budget (19.08.03) article) amounts to € 124.75 million. This is comparable to the financial amounts allocated in earlier years. This amount continues to be substantial in relation to the size of the beneficiary in terms of population and economic size. The proposed programme confirms therefore once more the priority the European Union gives to its support for the creation of a viable, democratic and independent Palestinian state.

The programme's main component is a contribution to the Public Financial Reform Trust Fund established by the World Bank at the end of April. This trust fund builds upon Commission's earlier budget support programme which was terminated end-2002 following the resumption by Israel of the regular transfer of clearance revenues. The principal objective of the programme is to advance the reform process of the Palestinian Authority, with a particular emphasis on improvement of various aspects of public finance management, while ensuring the continued viability of the Palestinian Authority institutions. Compliance of the Palestinian Authority with agreed benchmarks will trigger budget support from the trust fund. Several donors (UK, Canada and Norway) have already indicated that they intend to make a contribution to the trust fund; the World Bank itself has decided to make available \$20 million in support of the programme. It is proposed that the Commission makes a contribution of €65 million to this trust fund.

The ESSP (Emergency Support Services Programme) has proved to be an efficient vehicle for protecting social expenditures of the Palestinian Authority. This is even more critical in a situation where a large and growing share of the population has been confronted with unprecedented poverty. For this reason it is proposed to continue our support to the ESSP trust fund established by the World Bank for this purpose (€22.75 million).

Support to the MEPP projects is an important vehicle for encouraging the participation of civil society in the Peace Process. The recent Geneva initiative is an example of how an active civil society can transcend conflicts. An allocation of € 7.5 million is proposed for this purpose.

A small allocation of €1 million is proposed for reinforcing the allocation for the extension of the TEMPUS programme. The Committee gave already its opinion on the Commission's proposal to allocate €2 million for this purpose in the NPF 2003. The current proposal seeks to reinforce credits for this purpose.

In order to support the implementation of PA's reform agenda, it is proposed to make available an €5 million for technical assistance. This comes in addition to the € 10 million provided last year. As this envelope will however be utilised completely shortly, and in view of the additional demands from the PA, this provides critical support to the implementation of the reform agenda in areas such as legislature, customs administration, banking sector reform, tax reform etc.

Given the uncertainty regarding the Gaza withdrawal plan, no concrete proposals can be made at this stage. However in view of the volatile situation as well as the recent request of the Council to the Commission to consider developing concrete measures for Gaza, a reserve for an amount of €20 million has been set aside for this purpose on the Peace Process budget line. Concrete or alternative proposals on the allocation of this reserve will be made at a later stage. The same applies to the support for East Jerusalem for which € 3 million are foreseen.

Finally, it should be noted that it is proposed to allocate an amount of €4 million to energy co-operation. This programme, in support of the Israel / Palestinian Authority energy agreement concluded in December 2003, will be part of the Regional Financing Plan 2004.

3. SUMMARY

<u>Financing plan 2004</u>	
Projects included in this decision	
<u>Meda</u>	
World Bank: Public Finance Reform Trust Fund	€ 65 million
Middle East Peace Process projects	€ 7,5 million
Reinforcement extension TEMPUS	€ 1 million
<u>Total on heading 19-08-02-01</u>	<u>€ 73.5 million</u>
<u>Financial and technical cooperation with the West Bank and the Gaza Strip</u>	
Contribution to World Bank Trust Fund Emergency Support Services Programme	€ 22.75 million
Reform Instrument - Technical Assistance II	€ 5 million
<u>Total on article 19-08-03</u>	<u>€ 27.75 million</u>
Total of projects included in this decision	€ 101.25 million
Projects to be submitted for opinion later in the year	
<u>Financial and technical cooperation with the West Bank and the Gaza Strip</u>	
East Jerusalem projects	€ 3 million
Reserve Gaza withdrawal	€ 20 million
<u>Total on article 19-08-03</u>	<u>€ 23 million</u>
Total of projects to be submitted for opinion later in the year	€ 23 million
<u>Total NFP 2004 for West Bank Gaza</u>	<u>€ 124.25 million</u>

Proposed measures

National Financing Plan (NFP) 2004 for the West Bank and Gaza Strip

PROJECT SUMMARY

Country: WEST BANK AND GAZA	Allocation : 19-08-02-01 (MEDA)
Project title: Contribution to the West Bank and Gaza Public Financial Management Reform Trust Fund	Amount: € 65,000,000 (non-reimbursable grant)
Beneficiaries: Ministry of Finance	Sector: 15020 - Public sector financial management
Foreseen date of decision: June 2004	Duration: One year
Person in charge: Ian Hoskins, EuropeAid B/3	

1. OBJECTIVES

Building on the successful budget support operations implemented by the Commission, the World Bank has established the Public Financial Management Reform Trust Fund (the "Reform Fund") to help sustain public services in the face of a continued severe fiscal crisis. This is in line with the conclusions of the meeting of the Ad Hoc Liaison Committee of December 2003 and following extensive consultations with the Palestinian Authority (PA), the International Monetary Fund (IMF) and donor countries. The Reform Fund builds on the budget support mechanisms developed by the Commission – the Special Cash Facility and the Direct Budgetary Assistance Program (Phases 1-5) – which made available a total of €246 million against a series of reforms between November 2000 and December 2002. Lessons from this assistance form an integral part of the design of the Reform Fund, which would extend a similar mechanism to a wider set of donors.

The Reform Fund will thus contribute to the reform effort of the PA, in particular in the area of public finances by mobilising additional donor resources in support of the PA budget. Donor funds will be co-mingled with disbursement made based upon progress in implementing a commonly agreed Reform Programme. The unification of external budget support in a single instrument will also simplify procedures for the PA.

2. PROJECT DESCRIPTION

This multi-donor Reform Fund has been set up by the World Bank in recognition of the very positive developments in the Palestinian public finance domain over the past two years and in response to the considerable PA financing needs for 2004. The

proposed contribution to the trust fund will help in maintaining the functionality of the Palestinian Authority and its institutions.

In recent years, the PA has employed various strategies to face a challenging budgetary situation. While the transfer by Israel of most of the stock of withheld clearance revenues in 2003 has provided some relief, it is estimated that the PA is confronted with a financing gap of \$650 million in 2004.

At the meeting of the Ad Hoc Liaison Committee on December 10, 2003, the PA asked the World Bank to create a new mechanism through which donors would be encouraged to provide pooled contributions, to be disbursed into the Single Treasury Account of the Ministry of Finance (MOF). The EU and other donors have strongly supported this request. It is felt that a common reform-oriented mechanism and strong fiduciary oversight would result in donor budget contributions in excess of what can otherwise be expected. Moreover, by pooling resources the international Community will have more leverage to push reforms by the PA. This approach corresponds also to the final recommendations of the Parliament's working group on budgetary assistance to the PA.

The World Bank has recently completed a Country Financial Accountability Assessment (CFFA) of the PA's public financial management system. The analysis confirms that the current systems are adequate to justify Bank budget support. The assessment also identifies key actions needed to further improve the system. These actions have been agreed with the PA as time-bound performance benchmarks for the Reform Fund and build upon earlier EC conditionalities. In collaboration with the EU, the Ministry of Finance, the IMF and other key donors, the World Bank prepared a Concept Note outlining a programme of reforms and arrangements for a multi-donor trust fund. Subsequent extensive consultations on the basis of this note with donors have ensured that key concerns have been incorporated in the final design of the Reform Fund.

The World Bank Board approved the Trust Fund on 27 April and an agreement has been signed with Norway and Canada for a total of about US\$20 million. Japan has also announced that it will contribute \$10 million. Moreover, the Bank has also decided to make available US\$20 million in support of the programme. Other donors are considering a possible contribution to the trust fund.

A first review mission comprising the WB, Commission representatives and actual or potential donors was in Palestine from 3rd to 6th May 2004 to verify that all Prior Actions were met. A second review mission will be in the West Bank and Gaza at the end of June to assess compliance with the mid-2004 benchmarks. Compliance with the benchmarks triggers payments to the Single Treasury Account from the trust fund.

A Local Guidance Committee (LGC) comprising the EC, the WB, the IMF, the USA plus other donors will be set up to monitor the implementation of the trust fund.

3. EXPECTED RESULTS

The project will provide critical support to a wide range of reform measures, in particular in the area of public finance management, including support to the budget of the Palestinian Authority, thereby contributing to functionality of the PA as a key

player in the peace process. As various studies have demonstrated, this type of support has appreciable positive welfare benefits.

The expected results of the Reform Fund are the following.

- (1) Further reform of the PA, in particular in the area of public finances, addressing important issues as identified in the World Bank CFAA, established in co-operation with the EC. This concerns in particular a further strengthening of internal and external audit and a reduction of the relative weight of the wage bill.
- (2) Relieving the pressure on PA finances allowing a gradual clearing of arrears, repayment to domestic banks, an increase in non-wage expenditure to more normal levels, and a resumption of social contributions, notably to the pension fund.

4. IMPLEMENTATION PROCEDURES

Following the Commission decision, an administration agreement will be concluded between the Commission and the World Bank (multi-donor trust fund) in accordance with the provisions of the Trust Fund Framework Agreement concluded between the Commission and the World Bank.

5. TIMETABLE

Implementation will start immediately following the Commission decision. The operational phase of the project is one year.

PROJECT SUMMARY

Country: Regional MEDA	Allocation : 19-08-02-01 (MEDA)
Project title: Middle East Peace Projects (MEPP) 2004	Budget: € 7,500,000
Duration: 3 years	Sector: Civil society activities (Code DAC 15050); various (Code DAC 40000)
Expected decision date: 2004	Beneficiary: MEDA countries
Advancement status: Operations to start in 2004	
Official responsible: Mr. Andrea Havelka, EuropeAid/B/3; Mme Raffaella Iodice de Wolff, ECTAO WBG	

1. OBJECTIVES

Since the outbreak of the second Intifada in September 2000, ‘official’ negotiations between Israelis and Palestinians have broken down, stalling the peace process and weakening public confidence in the prospects for a negotiated two-State solution.

There is a need to promote peace initiative in order to prevent further violence, to reduce the increase of extremism and to seek for a peaceful solution of the conflict. In this vein, peace efforts must be focused on building and maintaining reservoirs of positive and constructive relations.

This approach has also moulded the Commission support to the Middle East Peace Process and this has proved to be an important element in the EU's involvement over the last few years. Member States, the Special Representative and partners in the region have expressed support in the Commission's programme, particularly as it raises the political visibility of the EU. It has also helped to strengthen the EU's political credibility and is generally a useful catalyst for maintaining a political dialogue with players on the ground.

The EU, as part of its overall policy on the Middle East, should therefore continue to support:

- local and international civil society initiatives which promote peace, tolerance and non-violence;
- work contributing to the development of ideas for resolving final status issues (in particular refugees and water) and for achieving the two-state solution in accordance with the Road Map.

2. PROJECT DESCRIPTION

Support to civil society activities is conceived as a means to broaden the base of support for the Middle East Peace Process in both Israeli and Arab societies and to stem the influence of extremists on both sides, and help recreate a climate of minimum confidence that would allow resumption of political negotiations. For this purpose the EU Partnership for Peace programme has been set up.

The overall objective of the **EU Partnership for Peace programme** is to help re-create the conditions for relaunching the peace process and provide a solid foundation at civil society level for a just and lasting peace in the Middle East by strengthening and increasing direct civil society relationships and co-operation based on equality and reciprocity between Arabs and Israelis, including the Arab Palestinian minority in Israel. The programme aims to promote initiatives in areas which are likely to have an impact on people's everyday lives and welfare, including less-politicised, more practical activities which will promote communication and understanding by demonstrating the advantages of working together for mutual benefit and tangible results.

Priorities for the 2004 call for proposals will be identified on the basis of the findings of the evaluation of the Partnership for Peace programme and its predecessor, the people-to-people projects.

Helping to clarify issues which will need to be settled in **final status negotiations** remains an important aspect of international involvement and support. The future territorial shape of the Middle East, the question of refugees and how their fate is going to be determined, the issue of Jerusalem, the crucial problem of access to natural resources, particularly water, and finally, the very nature of a future Palestinian state, are of high importance and immediate relevance to the EU. An analysis of all other issues related to the achievement of the two-state solution, including unilateral proposals by one party, may provide complementary information.

Given the nature of the issues involved governmental, public institutions as well as international organisations should be eligible for funding.

3. EXPECTED RESULTS

The years 2001 through 2003 saw a deep crisis of the peace camp. EC support in 2004 should be directed to **rebuilding of confidence** within each society and between societies by strengthening civil society. Assistance should also be given to practical efforts to promote peace and to networks of Israelis and Palestinians/Arabs in practical fields. Particular attention should be paid to **public opinion** with a view to broadening support for the peace process. Projects related to the final status issue will raise awareness and will provide the necessary factual/technical input for decision-makers, both in the region and the EU.

4. IMPLEMENTATION PROCEDURES

The programme implementation will be carried out according to the EC procedures for external aid. Projects will be mainly selected on the basis of call for proposals

(guidelines to be developed following ongoing evaluation). Funds will also be used in order to finance projects of the reserve list of the most recent call. Under justified circumstances and/or due to the volatile situation on the ground, projects might be attributed, in conformity with Financial Regulation, to a specific organisation.

5. CALENDAR

It is intended that projects up to a duration of three years will be financed under the framework of the Middle East Peace Projects 2004. The call for proposals in the context of the “EU Partnership for Peace” programme is to be launched in September/October 2004.

PROJECT SUMMARY

Country : West Bank and Gaza Strip	Allocation : 19-08-02-01 (MEDA)
Project title : Extension of the Tempus Programme to the MEDA countries	Amount : 1 million (grant)
Beneficiary : Higher Education Institutions	Sector : Higher Education (DAC 11420)
Foreseen starting date : 2004	Duration : 3 years
Person in charge : Antonia Calvo, EuropeAid B/4	

1. OBJECTIVES

The Tempus Programme is aiming at reforming and modernising higher education systems by developing inter-university co-operation between EU countries and eligible countries.

The extension of the programme allows the MEDA countries to benefit from the experience of the Tempus Programme and from its powerful network with a view to contributing towards the achievement of one of the key objectives of the Barcelona Declaration:

“Develop human resources; promote understanding between cultures and rapprochement of the peoples in the Euro-Mediterranean region as well as to develop free and flourishing civil societies (social, cultural and human partnership).”

2. PROJECT DESCRIPTION

Tempus Meda was launched in 2003 for West Bank and Gaza Strip. Despite the negative consequences of the general situation in the Territories last year two projects and 16 mobility grants were accepted for funding.. A national contact point will be appointed and an information campaign will be launched this year.

The Tempus Programme allows for three types of actions to be funded: the Joint European Projects, Individual Mobility Grants and a certain number of structural and complementarity measures:

2.1. The Joint European Projects (JEP)

Funded for a maximum of 3 years, the JEP is carried out by a network of institutions composed of at least one higher education institution from the eligible countries and two institutions from two EC Member States (of which at least one must be a higher education institution).

2.2. Individual Mobility Grants

Intended for teachers, researchers, trainers, university administrators, senior ministerial officials, education planners, and other experts, these grants are aiming at funding visits to promote the quality, development and restructuring of higher education.

2.3. Structural and Complementary Measures (applicable to the New Guide for Applicants for calls in 2003, 2004)

Grants are also provided for a certain number of complementarity activities in support of the overall objectives of the programme, inter alia:

- to develop and strengthen the capacity for strategic planning and institutional development of higher education establishments;
- to establish a development plan for universities to help them build up international relations;
- to support the spread of the results of the programme activities;
- to prepare a national strategy to develop a specific aspect of higher education.

3. EXPECTED RESULTS

To establish a strengthened network for inter-university co-operation between EU countries and eligible countries but also between the MEDA countries themselves.

To promote better understanding between and rapprochement of cultures.

To contribute to the development of higher education systems in the region to better respond to the socio-economic and cultural needs of our partner country, notably by :

- upgrading the curricula;
- reforming and developing higher education structures and establishments and upgrading their management;
- developing training leading to qualifications with a view to making good the shortage of high level skills needed in the context of economic reform and development, particularly by improving and increasing links with industry;
- increasing the contribution of higher education and training to citizenship and the strengthening of democracy.

4. IMPLEMENTATION PROCEDURES

The Directorate-General for Education and Culture is responsible for the implementation of the Tempus programme in the MEDA region with the technical support of ETF (“European Training Foundation”). This DG will work in close co-operation with EuropeAid (Directorate B).

EuropeAid will ensure consistency and complementarity between the actions of the Tempus Programme and the projects and programmes in the MEDA Programme. An evaluation of the actions already executed under the Tempus programme in the Meda region is planned to be launched in the next months. The results will be shared with the Med Committee.

5. CALENDAR

A guide for applicants was issued by the end of 2002 and a call for proposals for projects and grants is issued annually in order to accommodate national priorities. The Joint European project selection will take place during the first semester of 2004 and activities will start with the academic year 2004/2005. For the selection 2004, four JEPs and 15 candidatures (for the first round of mobility grants) are under study.

FINANCING PROPOSAL

Country : West Bank and Gaza Strip	Allocation : Community operations connected with the Israel/PLO peace agreement (19.08.03)
Project title : Trust Fund for the 2004 Emergency Services Support Project (2004 ESSP)	Amount : € 22.75 millions (non reimbursable grant)
Beneficiary : World Bank on behalf of the Palestinian Authority	Sector : Social sectors (health and higher education) (DAC 16310)
Foreseen date of decision : 2004	Duration : 1 year
Persons in charge : Nathalie Brajard-vom Stein, EuropeAid B/4 & Raffaella Iodice de Wolf, ECTAO Jerusalem	

1. OBJECTIVE

The objective of the present support to the 2004 Emergency Services Support Project (2004 ESSP) is to mitigate the deterioration of education, health and social welfare services resulting from the ongoing conflict and its consequent economic crisis and fiscal impact. This is being achieved by financing the non-salary (except for higher education) recurrent expenditures of the core social service-delivery ministries of health, education, higher education, and social affairs. The ESSP also supports for other ministries the operating non-salary budgets (such as utility charges, communication and transportations costs) that the ministry of finance is unable to finance. In the current evolving situation, ESSP would be adjusted if necessary to respond to the beneficiaries' changing needs.

The scope of the EC support to the 2004 ESSP will be limited to recurrent expenditures for health and higher education services.

2. BACKGROUND

The security measures that Israel has imposed in the West Bank and Gaza during the *intifada* continue to result in severe economic depression and fiscal compression. Recent economic data do show a limited recovery beginning in late 2002 and accelerating with the launching of the Roadmap process in the summer of 2003. Unemployment fell from 41.3 percent of the work force in 2002 to 33.5 percent in 2003. However, these improvements do not alter the fact that the West Bank and Gaza is in deep economic crisis. Real per capita incomes are more than 30 percent below their pre-*intifada* level, and about half of the Palestinian population is currently living below a poverty line of US\$2 per capita/day.

The *intifada* has had a profound impact on the fiscal profile of the Palestinian Authority (PA). In this context of fiscal crisis, the ESSP has helped maintaining basic public services related to education, health, municipal services and social affairs.

The EC, with the World Bank and other donors, especially Member States has been providing the ESSP for the last two years (ESSP I in 2002 and ESSP II in 2003) for a total amount of \$ 128 million. On average the monthly disbursement has been around \$ 6 million.

Despite the continued closures and curfews imposed on many areas in West Bank and Gaza Strip, the ESSP has helped maintaining basic public services in the field concerned. In particular, ESSP has supported the continuation of health and education services in 398 laboratories, 2,613 primary health care centres, 18 hospitals, and 17 MOH Directorate offices, 490 primary and secondary schools and 17 MOE Directorates offices. ESSP II funds were also used to finance running and salary costs of 9 universities.

3. DESCRIPTION

The allocations per ministry/ component have been defined by the World Bank and the Interministerial Committee established for that purpose, as well as for overseeing overall project implementation. The total 2004 ESSP is estimated at \$ 120 million, based on a projection of a capacity to disburse at a monthly rate of about \$ 10 million. Given the ongoing commitments of donors, the current funding gap is \$ 94 million. The 2004 ESSP program budget represents around 25% of the non-wage current expenditures of the Palestinian Authority (PA) global Budget.

The proposed 2004 ESSP (considered as an extension of the ESSP II) has been approved by the Board of the World Bank in December 2003, as well as an additional World Bank financing allocation of \$ 15 million.

The EC support to the 2004 ESSP will be of € 22.75 million, covering 22.5 % of the 2004 ESSP expenses (€ 14.8 million for health, € 7.5 million for higher education).

Support to health services will cover essential drugs and medical consumables, non-medical recurrent expenditures, treatment in private/non governmental clinics (providing services not available by public facilities) and hospital foods contracts.

Support to higher education will be used to finance running and salary costs of higher education institutions.

4. EXPECTED RESULTS

The program will help preserve Palestinian human capital by supporting the sustainability of social services to the Palestinian public at a time when financing available social services has been reduced due to severe budgetary crisis. This should help slow further decline in human development indicators which are difficult to reverse and which could compromise the country's development prospects for a long time after the crisis has passed. It will support the sustainability of national social delivery systems, until such time that political conditions will permit sustainable economic and fiscal improvements that would attend to them.

5. IMPLEMENTATION PROCEDURES

The support to the 2004 ESSP will be implemented by the means of a single donor Trust Fund agreement between the EC and the World Bank. The World Bank shall administer the trust funds.

An advance payment of € 22.75 million, representing 100%¹ of the total grant amount shall be payable within 45 days following signature of the Administrative Agreement between the EC and the World Bank and the reception by the EC of a payment request.

The support will be managed by the World Bank under the co-responsibility of the Ministry of Finance. The final beneficiaries will be the users of health and higher education services.

As for the ESSP I and II, implementation modalities, financial audit and control provisions of the trust fund shall be subject to the procedure laid down in the financial regulations, rules and directives of the World Bank, in accordance with the standards provisions of the Administrative Agreement. Payments from the trust fund will be submitted to the same payment cycle agreed by the World Bank for its own funds.

The World Bank will monitor the implementation of the 2004 ESSP and will report to the EC. Overall management of the 2004 ESSP will be handled by the Ministry of Finance through a co-ordination unit under the responsibility of the World Bank. The EC will be part of the PA donor co-ordination mechanism laid down in the framework of the ESSP.

6. CALENDAR

The 2004 ESSP is based on the needs of the year 2004. The EC support will expire on 30 June 2005, but may be extended for 6 months taking into account the disbursement rate.

¹ Provision applicable to trust funds with an anticipated duration of one year or less.

FINANCING PROPOSAL

Country : West Bank and Gaza Strip	Allocation : Community operations connected with the Israel/PLO peace agreement (19.08.03)
Project title : Reform Support Instrument – Technical Assistance II	Amount : € 5,000,000 (non-reimbursable grant)
Beneficiary : Ministry of Finance	Sector : 15040 – Government administration
Foreseen date of decision : June 2004	Duration : Three years
Person in charge : Ian Hoskins, EuropeAid B/3	

1. BACKGROUND

The 2003 National Financing Plan for West Bank Gaza provided for technical assistance support (Reform Support Instrument – Technical Assistance) for an amount of €10 million. The principal objective of the programme was to meet critical technical assistance needs in the support of the implementation of the reform agenda by the Palestinian Authority.

So far almost 50 percent of the 2003 TA envelope has been contracted and the rest will be contracted in the coming months. For this reason it is necessary to make available an additional envelope of €5 million.

Activities that have been funded under the 2003 programme include:

- technical assistance for the implementation of the 2003 Finance Facility: €1.3 million;
- technical assistance for reinforcing the internal audit capacity of the Ministry of Finance: €1.5 million;
- technical assistance for an Automated System for Customs Data Phase II - Pilot Implementation executed by UNCTAD: €0.7 million;
- technical assistance to the Palestinian Central Election Committee: €1.0 million.

Additional funds under the 2003 envelope will be needed to support the strengthening of the Ministry's of Finance internal audit capacity. It concerns the second phase of the internal audit programme that will implement the recommendations from the first phase. It will be a programme for about three years, with a total cost of €3-4 million. In order to ensure continuity with the previous and ongoing technical assistance support provided by the Commission the contract will

be awarded through a negotiated procedure with the current contractor of the project².

As for the 2004 proposed envelope, a variety of actions in support of institutional development are foreseen including continued support for the legislature, customs administration reform, banking sector reform, tax administration reform etc. Priorities will be established in close co-ordination with the PA's Reform Co-ordination Support Unit and key reform ministries.

The support covers specific technical assistance needs, including training needs and equipment.

2. OBJECTIVE

The objective of the technical assistance support is to put in place a flexible mechanism to support the Palestinian reform in response to the specific needs arising from the reform process.

3. EXPECTED RESULTS

The project will provide critical support to the PA's reform process. The main expected results are:

- improve the PA's public finance management and strengthen the regulatory environment and financial control measures;
- support the reform process and strengthen the transparency and the accountability of budget implementation;
- support reform processes in other areas with targeted technical assistance (including rule of law, higher education, legislature, economic policy and trade, local government);
- effectively accompany the Roadmap in the light of the establishment of an independent and democratic Palestinian State.

4. IMPLEMENTATION PROCEDURES

A financing agreement will be concluded between the Commission and the Palestinian Authority. The main recipient of the programme will be the Ministry of Finance. Other institutions of the Palestinian Authority may equally benefit from the T.A. programme. The Commission will ensure a continuous and regular monitoring of the programme.

² Ernst and Young, the current contractor, has been involved in the audit programme from the very beginning and it has therefore an in-depth knowledge of the current internal audit and financial control practices of the Ministry of Finance, including its further development needs. Moreover, Ernst & Young has a local representative office in Ramallah that can make available expertise that is very familiar with local conditions and practices. Moreover, these experts are accustomed to coping with recurrent security problems.

5. TIMETABLE

Implementation will start immediately following the Commission decision. The duration of the operational phase of the project is three years.