

Action Fiche

1. ARTICLE IDENTIFICATION

Title	Finance Facility II - Arrears		
Total cost	€20 million maximum (EC Contribution)		
Aid Method	Project approach – Centralised Management		
DAC-code	60010	Sector	Action related to debt

2. DESCRIPTION

2.1. Objectives

The main objective of this programme is to support economic activity in the Palestinian territory by helping to reduce the stock of arrears due to the private sector by the Palestinian Authority. It will also contribute to the provision of social services by paying arrears due for social expenditures. To this end, a scheme to reimburse Palestinian Authority arrears will be put in place.

2.2. Expected results and main activities

The level of arrears of the Palestinian Authority has reached over \$330 million which have accumulated largely as a result of the Israeli government decision to no longer transfer clearance revenues as well as the tighter closure policy which has restricted economic activity. While the resumption of transfers by the Israeli Government provides some immediate relief, the financing needs remain significant, in particular taking into account this large stock of arrears.

The high level of arrears has led to bankruptcy of some companies and has affected social service provision. The programme will therefore help to reduce these arrears to the private and social sectors which will help improve the cash-flow position of the private sector and raise its purchasing power. As a result demand will increase, which will stimulate employment opportunities. The reduction of social expenditure arrears contributes to enhancing social stability and welfare.

2.3. Stakeholders

The main stakeholder will be the Palestinian Authority represented by the Ministry of Finance (MoF). The Palestinian private sector will also be a stakeholder.

2.4. Risks and assumptions

The takeover of Gaza by Hamas in June 2007 illustrates the high degree of instability which makes the implementation of the project difficult. Experience gained by the Commission in working in this difficult environment, in particular, over the last year, will be applied to try to mitigate the above-mentioned risks.

2.5. Conditionalities

None.

3. IMPLEMENTATION ISSUES

The project will be implemented under a centralised management structure. A financing agreement following standard models in force will be concluded between the Commission and the Ministry of Finance of the Palestinian Authority.

The procedures for the arrears mechanism will be similar to those used under a 2003 programme for Palestine (*Reform Support Instrument - Finance Facility Component*¹) which had the same objectives as this current action.

Independent auditors will prepare reports which contain lists of verified arrears according to previously agreed eligibility criteria. Eligible beneficiaries listed in the report will be screened against common sanctions lists. Each report will then be verified and certified by an independent certifier. The certifier will submit the report to the European Commission who will verify and approve the report. The European Commission will transfer an amount equivalent to the total value of eligible arrears identified in the report to a beneficiary account, established specifically for this project. Payments will be made from the beneficiary account to the private and social sectors, as soon as practically possible, and only after a double signature by a representative of the beneficiary and a representative of the European Commission.

Following payment, the team of independent auditors and the certifier will verify the final payments, confirming that the correct payment has been made and that the creditor has acknowledged receipt of the payment.

Independent auditors and an independent Certifier will be recruited from funds made available under an earlier technical assistance decision (ENPSI, €2 million, C(2006)2896) to assist the beneficiary in the control and classification of arrears during the entire period of the programme.

3.1. Budget and calendar

The budget is €20,000,000 and will be entirely allocated to the payment of arrears.

The project duration is 24 months starting from the date of the signature of the Financing Agreement.

3.2. Procurement and award of grants procedures

All contracts implementing the action will 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.

¹ C(2003)1333

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. Full financing can be applied in the cases provided for in Article 253 of the Implementing Rules of the Financial Regulation where financing in full is essential to carry out the action in question.

For activities implemented through an international organisation, all contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the international organisation concerned and in conformity with the relevant Community legislation.

The West Bank and Gaza are territories facing a crisis, 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 when necessary.

3.3. Performance monitoring

Implementation of the programme will be monitored regularly by the European Commission on the basis of regular monitoring visits and the reports of the Certifier and the independent auditors, and bank statements on the project account..

3.4. Evaluation and audit

A final evaluation will be carried upon the completion of the project.