



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND THE COUNCIL

**amending Council Regulation (EC) No 1734/94 on financial and technical cooperation
with the Occupied Territories**

(presented by the Commission)

EXPLANATORY MEMORANDUM

In response to the requirements for Palestinian economic and social development following the Oslo accords and the first donor conference in Washington in October 1993, the EU decided to establish a specific budget line in support of the peace agreement. To this end, the Council, on 11 July 1994 adopted Regulation (EC) No 1734/94 on financial and technical co-operation with the Occupied Territories (later renamed into co-operation with the West Bank and the Gaza strip). This Regulation was amended twice in 1998 (No 2840 and 2824/98).

Article 1 of the Regulation provides for implementation of the financial and technical co-operation to be carried out on the basis of five-year programmes. However, the constantly changing situation on the ground during the period 1998 to 2003, and in particular the outbreak of the second Intifada in September 2000, did neither allow for multi-annual programming of financial assistance to the Palestinians nor for a comprehensive evaluation of the implementation of the ongoing aid effort. Identification of priorities for our assistance had to be done on an ad hoc basis and was implemented annually.

The Regulation of 1998 furthermore states that it should be brought into line with the MEDA Regulation following the latter's amendment in particular as regards the potential beneficiaries of assistance.

Given that in addition the new financial Regulation (No 1605/2002) has been adopted as well as the Decision laying down the procedures for the exercise of implementing powers conferred on the Commission (No 468/1999), an amendment of the Regulation on financial and technical co-operation with the West Bank and the Gaza Strip has become necessary.

The amended Regulation will allow for a continuation of the Community's aid effort to the Palestinians to achieve sustainable economic, political and social development in line with the new rules in force. This is essential in particular against the background of the recent developments on the ground. A new political landscape is emerging following the appointment of Prime Minister Abu Mazen and the full and active engagement of the international community. This has given rise to the approval by all parties of a political roadmap leading to the resolution of the Israeli-Palestinian conflict and the establishment of a Palestinian state by 2005. However, the situation on the ground is still too fragile to enable the Commission to come forward with a longer-term approach to co-operation with the West Bank and the Gaza Strip. Still, a continuation of support is now needed to meet the exigencies of the economic and humanitarian situation, to further advance Palestinian reform, and to support the reawakened peace process. With regard to the humanitarian situation, actions envisaged will complement the humanitarian assistance provided by the Commission through its Humanitarian Aid Office (ECHO).

It is therefore proposed to amend Council Regulation (EC) No 1734/94 in the light of the above. The proposed amendments are of a purely technical nature.

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amending Council Regulation (EC) No 1734/94 on financial and technical cooperation with the Occupied Territories

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 179 thereof,

Having regard to the proposal from the Commission¹,

Acting in accordance with the procedure laid down in Article 251 of the Treaty,,

Whereas:

- (1) all efforts should be made to prevent any further deterioration of the Palestinian economy by contributing to a sound management and fiscal balance of the Palestinian Authority and to consolidate it by means of institutional reinforcement.
- (2) requirements for financial aid will continue to be generated in the territories of the West Bank and the Gaza Strip as a result of recent developments in the Middle East Peace Process;
- (3) the Community should therefore pursue its aid effort pursuant to Regulation (EC) No 1734/94
- (4) Regulation (EC) No 1734/94 should be reviewed by the European Parliament and the Council before the end of 2005 in order to take account of developments in the area, in particular with regard to the implementation of the roadmap for peace (Elements of a performance-based road map to a permanent two-state solution to the Israeli-Palestinian conflict)
- (5) Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities' financial interests² establishes a common legal framework for all the fields of the Communities' own resources and expenditure. Council Regulation (Euratom EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities³ applies to all areas of the Communities' activity without prejudice to the provisions of Community rules specific to different policy areas;

¹ OJ C [...], [...], p. [...]

² OJ L 312, 23.12.1995, p. 1

³ OJ L 292, 15.11.1996, p. 2

- (6) Regulation (EC) No 1734/94 on financial and technical co-operation with the Occupied Territories should therefore be amended accordingly

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1734/94 is amended as follows:

1. Article 1 is replaced by the following:

‘Article 1

1. The Community shall implement financial and technical co-operation with the West Bank and the Gaza Strip with the aim of aiding their achievement of sustainable economic, political and social development. If circumstances allow, implementation shall be based on pluri-annual programmes.
2. The European Commission will provide a report reviewing this Regulation by 31 December 2005 at the latest, taking into account recent developments in the area.

2. In Article 2, :

the following paragraph is added after paragraph 3:

4. Support measures may also include eligible beneficiaries as outlined in Art. 1(2) of Council Regulation (EC) No 1488/96 of 23 July on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership.⁴

the following paragraph 8 is added :

8. Invitations to tender and contract shall be open on equal terms to all natural and legal persons in the Member States and the Mediterranean partners.

⁴ OJ L 189, 30.7.1996, p. 1-9

3. In Article 4, the following paragraph 5 is added:

“Financing decisions and any financing agreements and contracts resulting therefrom shall provide, inter-alia, for supervision and financial control by the Commission (including the European Anti-fraud Office (OLAF)), including on-the-spot checks and inspections in conformity with Council Regulation (Euratom, EC) No 2185/96⁵ and audits by the Court of Auditors, where appropriate, to be carried out on the spot. Measures shall be taken in accordance with the procedure set out in Article 5 in order to provide for adequate protection of the financial interests of the European Community in conformity with Council Regulation (EC, Euratom) No 2988/95⁶.” Where necessary, investigations shall be conducted by the European Anti-Fraud Office (OLAF) and shall be governed by European Parliament and Council Regulation (EC) No 1073/1999.⁷

Article 2

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

⁵ OJ L 292, 15.11.1996, p. 2

⁶ OJ L 312, 23.12.1995, p.1

⁷ OJ L 136, 31.5.1999, p. 1.

LEGISLATIVE FINANCIAL STATEMENT

Policy area(s): Middle East

Activit(y/ies): Relations with the Middle East and the South Mediterranean

TITLE OF ACTION: COMMUNITY OPERATIONS CONNECTED WITH THE ISRAEL-PLO PEACE AGREEMENT

1. BUDGET LINE(S) + HEADING(S)

190803 (ex- B7-42)

FIGURES

2.1. Total allocation for action (Part 190803): € million for commitment

47.75

2.2. Period of application:

2004-2006

(start and expiry years)

2.3. Overall multiannual estimate of expenditure:

(a) Schedule of commitment appropriations/payment appropriations (financial intervention) *(see point 6.1.1)*

€ million *(to three decimal places)*

	Year 2004	2005	2006	[n+3]	[n+4]	[n+5 and subs. Years]	Total
Commitments	47.75	47.75	47.75				
Payments							

(b) Technical and administrative assistance and support expenditure *(see point 6.1.2)*

Commitments							
Payments							

Subtotal a+b							
Commitments							
Payments							

(c) Overall financial impact of human resources and other administrative expenditure
(see points 7.2 and 7.3)

Commitments/ payments							
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TOTAL a+b+c							
Commitments							
Payments							

2.4. Compatibility with financial programming and financial perspective

X Proposal is compatible with existing financial programming.

Proposal will entail reprogramming of the relevant heading in the financial perspective.

Proposal may require application of the provisions of the Interinstitutional Agreement.

2.5. Financial impact on revenue:⁸

X Proposal has no financial implications (involves technical aspects regarding implementation of a measure)

⁸ For further information, see separate explanatory note.

OR

Proposal has financial impact – the effect on revenue is as follows:

(NB All details and observations relating to the method of calculating the effect on revenue should be shown in a separate annex.)

(€ million to one decimal place)

Budget line		Revenue	Prior to action [Year n-1]	Situation following action						
				[Year n]	[n+1]	[n+2]	[n+3]	[n+4]	[n+5]	
		a) Revenue in absolute terms								
		b) Change in revenue								

(Please specify each budget line involved, adding the appropriate number of rows to the table if there is an effect on more than one budget line.)

3. BUDGET CHARACTERISTICS

Type of expenditure		New	EFTA contribution	Contributions form applicant countries	Heading in financial perspective
Non-comp	Diff/	NO	NO	NO	No IV EXTERNAL ACTION

4. LEGAL BASIS

(Show main legal basis only.) 1734/94

5. DESCRIPTION AND GROUNDS

5.1. Need for Community intervention ⁹

5.1.1. Objectives pursued

(Describe the problem(s)/need(s) (in measurable terms) that the intervention is designed to solve/satisfy (the baseline situation against which later progress can be measured). Describe the objectives in terms of expected outcomes (for example as a change in the above baseline situation).)

The main objective of cooperation under this Regulation is to aid the West Bank and the Gaza Strip to achieve sustainable economic, political and social development in view of the creation of an independent, democratic, and viable Palestinian state. To do this,

⁹ For further information, see separate explanatory note.

- the economic and humanitarian situation of the Palestinian population needs to be improved;
- social stability needs to be preserved by contributing to the provision of basic public services;
- institution-building of a future Palestinian state needs to be supported as well as the reform process of the Palestinian Authority;
- implementation of the EC-PLO (PA) interim association agreement as well as of the Israel-PLO peace agreement needs to be facilitated.

5.1.2. *Measures taken in connection with ex ante evaluation*

(This involves:

- (a) explaining how and when the ex ante evaluation was conducted (author, timing and where the report(s) is/are available) or how the corresponding information was gathered;¹⁰*

No ex-ante evaluation has taken place due to the volatile situation on the ground and the impossibility to program on a multi-annual basis.

- (b) describing briefly the findings and lessons learnt from the ex ante evaluation.)*

5.1.3. *Measures taken following ex post evaluation*

(Where a programme is being renewed the lessons to be learned from an interim or ex post evaluation should also be described briefly.)

The present proposal is a renewal of an existing programme. One of the lessons learned from the current programme is that the volatile situation in the West Bank and the Gaza Strip does not allow for multi-annual programming as foreseen in the Regulation to be amended. Instead, programming of financial assistance for technical and economic co-operation should also be possible on an annual basis.

5.2. Action envisaged and budget intervention arrangements

(This point should describe the logic behind the proposal. It should specify the main actions to achieve the general objective. Each action should have one or more specific objectives. These should indicate the progress expected over the proposed period. They should also look beyond immediate outputs but be sufficiently precise to allow concrete results to be identified. Specify for each main action:

¹⁰ For minimum information requirements relating to new initiatives, see SEC(2000) 1051.

- *the target population(s) (specify number of beneficiaries if possible);*
- *the specific objectives set for the programming period (in measurable terms);*
- *the concrete measures to be taken to implement the action ;*
- *the immediate outputs of each action; and*
- *the contribution of these outputs to the expected outcomes in terms of satisfying needs or solving problems*

Information should also be given on the budget intervention arrangements (rate and form of the required financial assistance.)

Main actions to achieve the general objective will be structured around measures to support social and economic development, and good governance.

- Improvement of social services, especially in the areas of health, family planning, water supplies, sanitation and housing.

Target population is the Palestinian population in the West Bank and the Gaza Strip, the specific objective is the maintenance of basic public services in the areas mentioned above. Concrete measures to be taken to implement the actions will be i.a. targeted sectoral support to the relevant ministries, project-based implementation for infrastructure projects, and technical assistance for capacity-building in the mentioned areas.

- Creation of an economic environment favourable to economic growth, while at the same time seeking to improve the well-being of the population.

Target population is the Palestinian Authority, and in particular the Ministry of Finance, the specific objective is to improve public finances and their administration. Concrete measures to be taken to implement the actions will be targeted sectoral support or the establishment of a structural adjustment facility.

- Establishment of the infrastructure necessary for trade, including transport, communications and energy, together with the improvement of the regulatory framework and small-scale infrastructure projects for trade enhancement

Target population are the relevant Palestinian ministries as well as the business community in the West Bank and the Gaza Strip, the specific objective is to create favourable conditions for trade with enterprises in the West Bank and the Gaza Strip. Concrete measures to be taken to implement the actions will be technical assistance to the PA, training, support to infrastructure projects.

- Improvement of good governance by assisting in the improvement of the capacity of the public administration to develop policies and manage their implementation, and by supporting key institutions and key protagonists in civil society such as local authorities, mutual-aid associations, trade unions, the media and organisation supporting business as well as by strengthening democracy and respect for human rights in particular through non-governmental organisations in the EC and the Mediterranean partners.

Target population is the Palestinian Authority as well as the ‘informal sector’ (cf. examples above), the specific objective is to support the reform process and the development of an open, transparent, and accountable administration. Concrete measures to be taken to implement the actions will be technical assistance projects, capacity-building, training, as well as small-scale projects for (office) equipment.

5.3. Methods of implementation

(Specify the methods to be used to implement the planned actions: direct management by the Commission using either regular or outside staff or by externalisation. In the latter case, give details of the arrangements envisaged for this externalisation (TAO, Agencies, Offices, decentralised executive units, management shared with Member States - national, regional and local authorities.)

Indicate the effect of the externalisation model chosen on the financial intervention, management and support resources and on human resources (seconded officials, etc.).)

As in the current programme, the actions will be implemented by the EC Delegation in Jerusalem which will be fully deconcentrated in 2004. Implementation will be mainly done on a centralised basis by the Commission, but also in co-operation with international organisations (e.g. UNRWA).

6. FINANCIAL IMPACT

6.1. Total financial impact on Part B - (over the entire programming period)

(The method of calculating the total amounts set out in the table below must be explained by the breakdown in Table 6.2.)

6.1.1. Financial intervention

Commitments (in € million to three decimal places)

Breakdown	2004	2005	2006	[n+3]	[n+4]	[n+5 and subs. Years]	Total
Action 1							
Action 2							
Action 3							
Action 4							
TOTAL	47.75	47.75	47.75				143.25

6.1.2. *Technical and administrative assistance, support expenditure and IT expenditure (commitment appropriations)*

	[Year n]	[n+1]	[n+2]	[n+3]	[n+4]	[n+5 and subs. years]	Total
1) Technical and administrative assistance							
a) Technical assistance offices							
b) Other technical and administrative assistance: - intra muros: - extra muros: <i>of which for construction and maintenance of computerised management systems</i>							
Subtotal 1							
2) Support expenditure							
a) Studies							
b) Meetings of experts							
c) Information and publications							
Subtotal 2							
TOTAL							

6.2. Calculation of costs by measure envisaged in Part B (over the entire programming period)¹¹

(Where there is more than one action, give sufficient detail of the specific measures to be taken for each one to allow the volume and costs of the outputs to be estimated.)

Commitments (in € million to three decimal places)

Breakdown	Type of outputs (projects, files)	Number of outputs (total for years 1...n)	Average unit cost	Total cost (total for years 1...n)
	1	2	3	4=(2X3)
<u>Action 1</u>				
- Measure 1				
- Measure 2				
<u>Action 2</u>				
- Measure 1				
- Measure 2				
- Measure 3				
etc.				
TOTAL COST				

If necessary explain the method of calculation

7. IMPACT ON STAFF AND ADMINISTRATIVE EXPENDITURE

7.1. Impact on human resources

Types of post		Staff to be assigned to management of the action using existing and/or additional resources		Total	Description of tasks deriving from the action
		Number of permanent posts	Number of temporary posts		
Officials or temporary staff	A	5 existing	1 existing		<i>Programming, Identification, implementation and monitoring of measures supported</i> <i>If necessary, a fuller description of the tasks may be annexed.</i>
	B	4 existing			
	C	2 existing			
Other human resources					
Total					

7.2. Overall financial impact of human resources

Type of human resources	Amount (€)	Method of calculation *
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¹¹ For further information, see separate explanatory note.

Officials		
Temporary staff		
Other human resources (specify budget line)		
Total		

The amounts are total expenditure for twelve months.

7.3. Other administrative expenditure deriving from the action

Budget line (number and heading)	Amount €	Method of calculation
Overall allocation (Title A7)		
A0701 – Missions		
A07030 – Meetings		
A07031 – Compulsory committees ¹		
A07032 – Non-compulsory committees ¹		
A07040 – Conferences		
A0705 – Studies and consultations		
Other expenditure (specify)		
Information systems (A-5001/A-4300)		
Other expenditure - Part A (specify)		
Total		

The amounts are total expenditure for twelve months.

¹ Specify the type of committee and the group to which it belongs.

I.	Annual total (7.2 + 7.3)	€
II.	Duration of action	years
III.	Total cost of action (I x II)	€

(In the estimate of human and administrative resources required for the action, DGs/Services must take into account the decisions taken by the Commission in its orientation/APS debate and when adopting the preliminary draft budget (PDB). This means that DGs must show that human resources can be covered by the indicative pre-allocation made when the PDB was adopted.)

Exceptional cases (i.e. those where the action concerned could not be foreseen when the PDB was being prepared) will have to be referred to the Commission for a decision on whether and how (by means of an amendment of the indicative pre-allocation, an ad hoc redeployment exercise, a supplementary/amending budget or a letter of amendment to the draft budget) implementation of the proposed action can be accommodated.) The needs for human and administrative resources shall be covered within the allocation granted to the managing DG in the framework of the annual allocation procedure.

8. FOLLOW-UP AND EVALUATION

8.1. Follow-up arrangements

(Adequate follow-up information must be collected, from the start of each action, on the inputs, outputs and results of the intervention. In practice this means (i) identifying the indicators for inputs, outputs and results and (ii) putting in place methods for the collection of data).

Follow-up of the programme will be ensured on the one hand by regular reports of the Independent Task Force on Palestinian reform, on the other hand by the continuous work of the local reform support groups and the monitoring mechanism of the roadmap. According to the provisions of this Regulation (art. 6.1), reporting on the implementation of the programme will be done by the Commission by means of annual reports to the European Parliament and Council.

8.2. Arrangements and schedule for the planned evaluation

(Describe the planned schedule and arrangements for interim and ex post evaluations to be carried out in order to assess whether the intervention has achieved the objectives set. In the case of multiannual programmes, at least one thorough evaluation in the life cycle of the programme is needed. For other activities ex post or mid-term evaluations should be carried out at intervals not exceeding six years.)

An evaluation will be carried out by EuropeAid in time for the Council and European Parliament to review this Regulation as provided for in art. 1(2).

9. ANTI-FRAUD MEASURES

(Article 28(3) of the Financial Regulation: "In order to prevent risk of fraud or irregularity, the Commission shall record in the financial statement any information regarding existing and planned fraud prevention and protection measures.")

In order to protect the European Community's financial interests against fraud and other irregularities, the Commission may also carry out on-the-spot checks and inspections under this programme in accordance with Council Regulation (Euratom, EC) No 2185/96¹². Where necessary, investigations shall be conducted by the European Anti-Fraud Office (OLAF) and shall be governed by European Parliament and Council Regulation (EC) No 1073/1999.¹³

The beneficiary of an operating grant shall keep available for the Commission all the supporting documents, including the audited financial statement, regarding expenditure incurred during the grant year, for a period of five years following the last payment. The beneficiary of a grant shall ensure that, where applicable, supporting documents in the possession of partners or members are made available to the Commission.

The Commission will carry out regular document checks and on-the-spot checks.

¹² OJ L 292, 15.11.1996, p. 2

¹³ OJ L 136, 31.5.1999, p. 1.