



COMMISSION OF THE EUROPEAN COMMUNITIES

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BRUSSELS, 28.06.2006

GENERAL BUDGET - 2006
SECTION III - COMMISSION TITLES 19, 31

TRANSFER OF APPROPRIATIONS N°DEC 32/2006
Emergency aid to WEST BANK and GAZA
NON-COMPULSORY EXPENDITURE

EUR

FROM

CHAPTER - 31 02 RESERVES FOR FINANCIAL INTERVENTIONS

ARTICLE 31 02 42 Emergency aid reserve

Commitments	- 40 000 000
Payments	- 2 000 000

TO

CHAPTER - 19 01 Administrative expenditure of 'External relations, policy area

ARTICLE - 19 01 04 Support expenditure for operations of 'External relations, policy area

ITEM - 19 01 04 06 MEDA (measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries) - Expenditure on administrative management

Non-Diff.	2 000 000
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CHAPTER - 19 08 Relations with the Middle East and southern Mediterranean

ARTICLE - 19 08 02 MEDA (measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries)

ITEM - 19 08 02 01 MEDA (measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries)

Commitments	38 000 000
Payments	0

I. INCREASE

I.A

a) Heading

19 01 04 06 - MEDA (measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries) - Expenditure on administrative management

b) Figures at 21/06/2006

	Non-Diff.
1A. Appropriation in budget (initial budget + AB)	20 803 500
1B. Appropriation in budget (EFTA)	0
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	20 803 500
4. Utilisation of final appropriation	17 945 065
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5. Amount not used/available (3-4)	2 858 435
6. Requirements up to year-end	4 858 435
7. Increase proposed	2 000 000
8. Increase as percentage of appropriation in budget (7/1A)	9.61%

c) Detailed grounds for the increase

The need for a reinforcement of the administrative support budget line derives from the lead donor or organisation having to assume responsibility for the Management Unit. This unit will be located in the lead donor. The lead donor will be responsible for ensuring that sufficient resources (financial and human) are allocated to effectively operate the unit. Other donors will also contribute staff to the Management Unit.

The Management unit will:

- liaise with the President's Office concerning eligible expenditure;
- organise and manage the process of validation, certification, audit and payments;
- be responsible for paying contributions or for validating payments to be made by individual donors;
- chair the Consultative Group.

An assessment of the required funds of such a management unit would be around 2 m€.

The disbursement of the funds for the TIM windows will take place in an unstable and very sensitive political environment. The Commission must put in place additional specific monitoring, audit and control systems for these temporary mechanisms in order to reduce as much as possible the inherent risk of these operations. Therefore, a reinforcement of this line for expenditure on administrative management is paramount in order to broaden the control environment.

I.B

a) Heading

19 08 02 01 - MEDA (measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries)

b) Figures at 21/06/2006

	Commitments	Payments
1A. Appropriation in budget (initial budget + AB)	725 666 550	641 416 500
1B. Appropriation in budget (EFTA)	0	0
2. Transfers	0	0
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3. Final appropriation for the year (1A+1B+2)	725 666 550	641 416 500
4. Utilisation of final appropriation	400 653 301	339 696 216
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5. Amount not used/available (3-4)	325 013 249	301 720 284
6. Requirements up to year-end	363 013 249	301 720 284
7. Increase proposed	38 000 000	0
8. Increase as percentage of appropriation in budget (7/1A)	5.24%	0.00%

c) Detailed grounds for the increase

CONTEXT

The Palestinian Territories are facing a crisis of unprecedented proportions. The situation has worsened in the last few months and there has been an increasing breakdown in law and order. The deteriorating situation in the West Bank and Gaza is the result of a worsening economic and fiscal situation which is driven by several interrelated factors.

The present Palestinian government has so far failed to meet the Quartet principles relating to recognition of Israel, repudiation of violence and acceptance of international agreements. There is increased lawlessness within the Palestinian Territories and attacks by militant groups against Israel have continued.

The Commission has taken precautionary measures to protect the financial interests of the EU by temporarily suspending projects with a financial, legal or technical link with the Palestinian Authority (PA), while extensive EU assistance is continuing. Israel, as a result of the PA Government's failure to meet the Quartet principles, has taken the decision to withhold Palestinian clearance revenues of up to \$60 million per month. Israel has also instituted a tighter closure policy affecting movement and access of people and goods to and from Gaza, as well as within the West Bank. In addition many donors, in particular the US, have put on hold projects and support directly through the new government.

As a result, there is a financial and economic crisis with living conditions rapidly deteriorating. The non-payment of salaries in April and May, largely due to Israel's decision not to transfer PA clearance revenues, has had a significant negative impact given that almost one million people (employees plus their families) have been without their regular income support for over two months.

The events following the coming to power of Hamas, an organization which is on the EU terrorist list, could not have been foreseen when the 2006 budget was drawn up.

INTERNATIONAL COMMUNITY RESPONSE: TEMPORARY INTERNATIONAL MECHANISM

The Quartet (US, EU, UN and Russia), meeting on 9 May 2006 *“expressed serious concern about deteriorating conditions, particularly in Gaza [...and] expressed concern about delivery of humanitarian assistance, economic life, social cohesion, and Palestinian institutions. The Quartet reiterated its support for assistance directed to help meet the basic human needs of the Palestinian people and promotion of Palestinian democracy and civil society, and called upon the international community to respond urgently”*.

Mindful of its responsibilities the Quartet also *“expressed its willingness to endorse a temporary mechanism”* to provide direct delivery of assistance to the Palestinian people and welcomed the offer of the EU to develop such a mechanism. This commitment on the part of the EU was reiterated by the Council at the GAERC meeting of 15th May. The Council stated that the EU would work *“urgently to develop such a mechanism which as a matter of priority will be aimed at contributing to meet basic needs”*.

Consequently, on 23 and 24 May 2006 the Commission organised technical meetings with Member States and with Quartet partners, international financial institutions and major donors to discuss options for a Temporary International Mechanism (TIM) to assist the Palestinians. The Commission presented the overall objective of the proposed mechanism, namely to respond to the worsening economic and humanitarian situation in the Palestinian Territories by ensuring the direct delivery of assistance to the Palestinian people. The envisaged mechanism foresees three distinct windows; TIM Window 1 – Emergency Services Support Programme (ESSP) of the World Bank; TIM Window 2 - Interim Emergency Relief Contribution (IERC) Phase II of the EC; and TIM Window 3 – Payment of Social Allowances. Commissioner Ferrero-Waldner presented an information note to the Commission on 24th May¹ on the overall mechanism and the GAERC meeting of 12th June confirmed its support to such a mechanism.

There is a convergence of views within the international community on the need for a temporary mechanism as soon as possible to avert a human disaster in the Palestinian Territories by covering the payment of essential supplies, fuel bills and social allowances for Palestinians in particular in the health social sectors.

The European Council of 15/16 June endorsed the proposed TIM and requested the Commission to proceed urgently with its establishment. Furthermore, the European Council agreed that the mechanism should focus on essential supplies and running costs for social services and health, supply of utilities including fuel, and social allowances. Finally, the conclusions of the 15/16 June, state that the Community stands ready to contribute a substantial amount to the international mechanism.

A number of donors have already indicated their willingness to make funds available.

The temporary mechanism should ensure oversight provided by expert consultants and an international auditing and accounting firm to ensure that funds are not diverted. The international mechanism could also be used to facilitate the transfer by Israel of withheld Palestinian fiscal revenue by providing a mechanism to directly assist the Palestinian population without funds flowing through present Palestinian Ministries.

EC CONTRIBUTIONS TO THE TIM

The Commission has already responded to the emergency situation in the Palestinian Territories. Over half of the EC financial programme was implemented in the first three months of 2006. This went towards basic refugee needs (€64 million through UNRWA, budget line 19.08.04) and an emergency relief fund (€40 million, through MEDA budget_line 19.08.02.01) to pay fuel bills owed by Palestinians. The quick disbursement rate of EC funds is an indication of the scale of the crisis facing Palestinians.

In order to meet the increasing urgent needs of the Palestinian population resulting from this dramatic economic decline, the Commission is proposing to make a further maximum contribution of €93 million to support all three Windows of the proposed Temporary International Mechanism (TIM) as well as a €12 million contribution for technical assistance and capacity building.

The TIM actions will have an initial duration of three months pending review in consultation with the Quartet.

¹ Document SEC(2006)677

Firstly, a maximum contribution of €10 million is envisaged to support the World Bank Emergency Services Support Project (ESSP) for the provision of essential supplies for key social services such as health. This will be implemented through a standard Administration Agreement with the World Bank. The EC has, since 2002 supported the ESSP for a total amount of €54.75 million.

Secondly, a maximum contribution of €40 million is envisaged to continue the EC's Interim Emergency Relief Contribution (IERC) in the coming months. The first phase of this project was implemented earlier in the year to support the caretaker government by ensuring that essential public utilities could continue to be provided to the Palestinian population. Support is provided via the direct payment of utilities (fuel, electricity etc) to Israeli and Palestinian suppliers.

Thirdly, a maximum €40 million contribution is envisaged for the direct payment of social allowances to Palestinians with € 2.75 million on for technical assistance, audit and control. It concerns an international collaborative donor effort. A Management Unit will be created and will be in charge of the management and the implementation of the fund, in close co-ordination with a Consultative Group and with the President's Office.

Finally, a €12 million technical assistance and capacity building contribution to provide support and equipment in the President's Office and in authorised autonomous PA bodies, is proposed.

The three Windows of the mechanism address different needs and they differ also in terms of implementation mechanism and rapidity of mobilisation of funds. Windows 1- the World Bank ESSP has been used in the past by donors and Window 2 - the IERC is ongoing. These are designed to pay for supplies and equipment of key ministries (health, education, social affairs) and key utility services (fuel, electricity etc). For Window 3 – social allowances to individuals, the detailed implementation method will be established in coordination with donors and IFIs, and appropriate auditing and control provisions will be put in place.

The total additional funding needed thus amounts to 104,75 M€. Part of it shall be met using budget line 19.08.03 (Middle-east peace process), using up all appropriations available under this budget line for an amount of 52,75 M€ , covering TIM window 1 (contribution to the World Bank Emergency Services Support Project (ESSP) and TIM window 3 (payment of social allowances). The remaining actions would have to be funded from the MEDA allocations, for a total of 52 M€. This amount would be funded partly by reallocation from other programs within the MEDA region (10 M€) and initially foreseen for the West Bank/Gaza Strip (2 M€) and the remaining 40 M€ will be funded by the proposed mobilisation of the emergency aid reserve for TIM Windows 2 (Interim Emergency Relief phase II). Within these additional 40M€, an amount of 2 M€ is requested for the administrative support budget line.

II. DECREASE

a) Heading

31 02 - RESERVES FOR FINANCIAL INTERVENTIONS - Article 31 02 42 - Emergency aid reserve

b) Figures at 21/06/2006

	Commitments	Payments
1A. Appropriation in budget (initial budget + AB)	0	0
1B. Appropriation in budget (EFTA)	0	0
2. Transfers	0	0
	<hr/>	<hr/>
3. Final appropriation for the year (1A+1B+2)	0	0
4. Utilisation of final appropriation	0	0
	<hr/>	<hr/>
5. Amount not used/available (3-4)	0	0
6. Requirements up to year-end (*)	0	0
7. Proposed decrease	40 000 000	2 000 000
8. Decrease as percentage of appropriation in budget (7/1A)	N/A	N/A
(*) Not relevant for a provisions line or reserve line		

c) Detail grounds for the transfer

Use of the Emergency aid reserve is to provide a rapid response to the specific aid requirements following the crisis situation in West Bank and Gaza. The requested re-inforcement of 40 m€ will be mobilised through budget lines 19 08 02 01 (38 m€) and the line for expenditure on administrative management in the MEDA chapter, 19 01 04 06 (2 m€).