

Political

update: PEGASE and World Bank Trust Fund, 24 April

Key points:

- EU established PEGASE on 1 February 2008 to replace the Temporary International Mechanism (TIM).
- PEGASE is a new funding mechanism to support the three year Palestinian Reform and Development Program (PRDP) endorsed at the Paris Donor conference last year.
- The World Bank has also established a new Trust Fund, the Palestinian Reform and Development Plan Trust Fund (PRDP-TF), to manage donations to the Palestinian authority.

Latest Developments

- The EU has established a new funding mechanism - The Palestinian-European Mechanism for Socioeconomic Assistance (PEGASE). This funding mechanism will manage the \$7.7 billion donated by the international community to support Prime Minister Fayyad's reform program (PRDP) announced at the Paris Donor Conference in December last year.
- The World Bank has also set up a new Trust Fund to manage external donations to the Palestinian Authority to help support the provision of vital services in the Palestinian Territories.
- At the Paris Conference the UK pledged £243 million over the next 3 years which will be channelled through PEGASE and PRDP-TF.
- On 2 April, International Development Secretary Douglas Alexander announced an additional £30 million in support for the Palestinians which is to pass through both PEGASE and the World Bank Trust Fund (PRDP-TF).

PEGASE

- PEGASE was set up to support the Palestinian Reform and Development Plan (PRDP). The PRDP was presented by Prime Minister Fayyad to the international community on 17 December 2007 at the Paris donors' conference. The plan was well received by the international community who pledged \$7.7 billion for the three-year period – a total far exceeding initial expectations.
- PEGASE will replace the current EU funding mechanism, the Temporary International Mechanism (TIM), and will cover a wider range of activities and financial instruments.
- The TIM was initially set up following Hamas' election in June 2006 as a stop-gap measure to ensure funds continued to be channelled to help the Palestinians while bypassing Hamas. PEGASE will include the same provisions as the TIM to ensure that money continues to reach the Palestinians but no direct aid is given to Hamas who seized control of the Gaza Strip in June 2007.

- PEGASE will be in operation for three years to correspond directly with the three year timescale set out in Salam Fayyad's PRDP.
- One of the main aims of PEGASE is to shift from providing emergency assistance to the PA (as the TIM did), to providing a financing mechanism to support a more sustainable Palestinian development process.

PEGASE will intervene in the four sections specified in the PRDP:

- *Governance*: fiscal reform, rule of law, justice, accountability and security;
- *Social affairs*: social protection, health, education (including vocational education and training), employment schemes as well as the provision of basic supplies like fuel;
- *Economic and private sector development*: trade facilitation, small and medium enterprises guarantee and financing, business centres, quick impact projects such as those proposed by the Quartet Special Representative Tony Blair, as well as payment of private sector arrears.
- *Public Infrastructure Development*: in the areas of water, environment, energy, basic infrastructure necessary to improve the daily life of the population as well as infrastructure that will enhance the business environment and offer employment opportunities.

World Bank Trust Fund

- On 12 April 2008, the World Bank signed a Grant Agreement with the Palestinian Authority to set up the multi-donor budget support Trust Fund (PRDP-TF) to support the Palestinian Reform and Development Plan.
- Trust funds, which are accounted for separately from the Bank's own resources, are financial and administrative arrangements with external donors that leads to grant funding of high-priority development needs, such as technical assistance, advisory services and debt relief.
- The main purpose of the trust fund is to help the PA meet operating costs for health services, education and social services. This Trust Fund will finance the non-salary expenditures of the key social ministries based on the PA's recurrent expenditure program for these ministries. It may also later finance the non-salary recurrent costs of other PA entities.