



EUROPEAN COURT OF AUDITORS

PRESS RELEASE

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“EU Direct Financial Support to the Palestinian Authority needs an overhaul”, say EU Auditors

A report published today by the European Court of Auditors (ECA) questions the sustainability of the EU PEGASE Direct Financial Support (DFS) to the Palestinian Authority (PA).

*“While the Commission and European External Action Service (EEAS) have **succeeded** in implementing the support to the Palestinian Authority **in difficult circumstances**, there are a number of aspects of the current approach that are increasingly in **need of an overhaul**”* stated Mr Hans Gustaf Wessberg, the ECA Member responsible for the report. *“Although some important results have been achieved, there is a **need for major revisions** such as encouraging the PA to undertake more reforms, notably in relation to its civil service. Furthermore, a way needs to be found to bring Israel to take the necessary steps to help ensure that PEGASE DFS is effective”.*

The European Union has provided more than € 5.6 billion in assistance to the Palestinian people since 1994 to support its overall objective of helping to bring about a two-state solution to end the Israeli-Palestinian conflict. Since 2008, its largest programme in the occupied Palestinian territory (oPt) has been PEGASE DFS, which provided approximately €1 billion in funding from 2008 to 2012. The audit examined if the Commission and the European External Action Service (EEAS) had managed this programme well for that period. PEGASE DFS seeks to help the PA to meet its obligations to civil servants, pensioners and vulnerable families, maintain essential public services and improve public finances.

The audit found that several aspects of the programming of funding need strengthening, there is scope for savings by making **more use of competitive tendering** and the complex **management** system currently in place needs **simplification**.

While the programme made a significant contribution to covering the PA’s salary bill, the increasing number of beneficiaries and declining funding through PEGASE DFS from other donors lead to serious delays in the payment of salaries by the PA in 2012 which led to unrest amongst the Palestinian population.

PEGASE DFS has contributed to essential public services but a considerable number of civil servants in Gaza, due to the political situation, were being paid without going to work and providing a public service. The Commission and EEAS have not sufficiently addressed this problem.

Finally, despite the large PEGASE DFS funding, the PA was facing a severe budget deficit in 2012 which was also threatening to erode Public Finance Management (PFM) reforms. Ultimately the threat to the financial sustainability of the PA can, to a considerable degree, be traced to the manifold obstacles raised by the Government of Israel to the economic development of the oPt and so also undermining the effectiveness of PEGASE DFS.

The purpose of this press release is to give the main messages of the special report adopted by the European Court of Auditors. The full report is on www.eca.europa.eu.

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The report sets out a number of recommendations which the Commission and EEAS should address when undertaking the necessary review of PEGASE DFS.

Notes to the editors:

European Court of Auditors (ECA) special reports are published throughout the year, presenting the results of selected audits of specific EU budgetary areas or management topics.

This special report (SR 14/2013) is entitled “European Union Direct Financial Support to the Palestinian Authority”. The ECA examined how well the EEAS and the Commission managed the PEGASE Direct Financial Support (DFS) to the Palestinian Authority. The audit focused on the design and implementation arrangements for PEGASE DFS as well as the results of PEGASE DFS and their sustainability.

The audit concluded that the Commission and EEAS had succeeded in implementing direct financial support to the Palestinian Authority in difficult circumstances but that a number of aspects of the current approach are increasingly in need of an overhaul. While some important results have been achieved their sustainability is in doubt without major revisions to the current approach. As part of these revisions, the PA also has to be encouraged to undertake more reforms, notably in relation to its civil service. At the same time, a way needs to be found to bring Israel to take the necessary steps to help ensure that PEGASE DFS is effective.

Based on its findings, the ECA recommends that:

- the EEAS and Commission should strengthen the programming of future PEGASE DFS, specifically by: linking it more closely to the new EU-PA-Action Plan; planning allocations on a multiannual basis; developing performance indicators, particularly in the areas of health, education and PFM, to better assess and demonstrate its results.
- the Commission should reduce the costs of administering PEGASE DFS by: using competitive tendering for contracts relating to the management and control of PEGASE DFS whenever feasible; simplifying the PEGASE DFS management system by making the EU Representation in Palestine responsible for administering the PEGASE database and taking over some of the checks currently outsourced.
- the EEAS and Commission should apply conditionality to future PEGASE DFS, specifically by linking it to concrete progress by the PA on civil service reform and public finance management reform.
- the EEAS and Commission should reach an agreement with the PA for the funding of salaries and pensions from PEGASE DFS for civil servants in Gaza to be discontinued and redirected to the West Bank.
- the EEAS and Commission in conjunction with the broader donor community, should further engage with Israel, within the framework of broader EU-Israeli cooperation, in order to determine what steps Israel needs to take to ensure PEGASE DFS is more effective.

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