



2009

Direct Financial Support



## PEGASE: Direct Financial Support to the Palestinian Government

### Sustaining Palestinian institutions



The European Union's (EU) PEGASE *Direct Financial Support* programmes provide financial assistance to the Palestinian Authority (PA) to cover its recurrent costs such as civil employee salaries and pensions, social expenditure, private sector arrears and essential public services. The difficult socio-economic situation has meant that the PA operates with a large budgetary deficit and depends on international aid to cover operating costs and to deliver basic services. These programmes help the PA achieve the objectives of the *Palestinian Reform and Development Plan* (PRDP) by working towards fiscal sustainability and efficient public services. In 2008, a total of €551 million was allocated to these programmes, including €421 million of direct EU support and €130 million of support from EU Member States.

### Providing support to the Palestinian Authority

Civil service wages and pensions account for nearly half the PA's annual expenditure. The PEGASE mechanism provides the Ministry of Finance with financial support to pay the salaries of over 78,000 civil servants and pensioners, such as doctors and teachers. In 2008, the EU's monthly contributions to the PA averaged €21.25 million, representing more than 25 per cent of the total wage bill of PA employees and 45 per cent of the civilian bill. Financial contributions from the Netherlands allocated through PEGASE also support the salaries of the Palestinian Civil Police, who make up ten per cent of PA active employees.

### Ensuring regular salary payments

*Dr. Mohamed Abu Al Sebah, 40, is a psychiatrist, and head of department at the Gaza Psychiatric Hospital, where he has worked since 1996. A father of four, his main source of income is his salary from the hospital. Dr. Mohamed receives his salary regularly, thanks to the **Civil Servants and Pensioners (CSP)** programme that is funded by the EU through PEGASE. This was not the case prior to the launch of the programme as Dr. Mohammed explained, "Two years ago, I never knew when I would be paid. My salary was paid irregularly and rarely in full. Now I receive my full salary on time."*



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### Helping the most vulnerable

Through PEGASE, the EU provides direct financial support to over 48,000 poor and vulnerable Palestinian families who depend on financial aid for their livelihoods. Families receive their EU-funded family allowances every three months through the Ministry of Social Affairs cash support programme and a network of 42 banks. In 2008, the EU allocated €33 million under this *Aid to Vulnerable Palestinian Families programme*. Over half of these families live in Gaza strip.

### Ensuring essential public services

The EU assists the PA to deliver essential public services to Palestinians, a priority in the PRDP. In 2008, a €95.8 million EU contribution provided fuel deliveries to the Gaza Power Plant, the sole facility producing electricity in the Gaza Strip. The plant generates around 30 per cent of the power consumed by the Gaza Strip's 1.4 million residents, supplying electricity for households, schools, hospitals and businesses.

The EU has contributed €20 million to a World-Bank led multi-donor trust fund, the *Emergency Services Support*



*Project*, to help maintain and improve the quality of Palestinian public services in education, health and the social sectors across the West Bank and the Gaza Strip. This project funds essential maintenance works of water, sanitation and electricity services and covers operating costs for the Ministries of Education and Higher Education, Health and Social Affairs.

### Eliminating government debt to business

The PA's past financial difficulties meant that it was unable to pay many of its private sector suppliers and partners. In 2008, the PEGASE mechanism allocated €24.3 million for arrears payments to small and medium sized private sector companies. This funding is a valuable cash injection for the Palestinian economy benefiting nearly 650 businesses and thousands of employees. It helped the PA to get rid of most of its debt to business and to restore private sector confidence.

### A lifeline for vulnerable families

*Maysoon Shaalan, 38, is a divorced mother of seven children. She has had no contact with her husband since she was pregnant with her youngest child, Baraa, now four years old. Maysoon and her family live in a dilapidated and damp apartment in Dehaishe refugee camp in Bethlehem. Their only furniture consists of a few plastic chairs and thin mattresses. The family rely on Maysoon's mother's meagre salary as a cleaner and an EU-funded allowance of 1,000 NIS every three months for their daily needs. They also receive regular food parcels from the Ministry of Social Affairs, but the family struggle to get by. Maysoon said, "My life is very hard. I really hope that my family continues to receive this EU support as we have so many problems. It helps me pay the school bills for my children and to buy them clothes. I want my children to get the best education so that they can have a better life than me."*

