

Brussels, 6 May 2002

## Conditions attached to the EC's budgetary assistance to the Palestinian Authority and the monitoring by the IMF

### Background note

The European Union has, from June 2001 to date, provided, on a continuous basis, €10 million per month in direct budgetary assistance to the Palestinian Authority. The main objective of this assistance has been to help the PA to deal with the short-term liquidity problems encountered by the interruption of monthly transfers of tax receipts (VAT and customs duties) by the Government of Israel (GoI) following the outbreak of the *Intifada* in the Palestinian Territories in October 2000. In particular, these operations are destined towards helping the PA to secure its basic expenditures with respect to public service salaries, social, educational, health and core functions.

Disbursements are made upon compliance of conditionalities agreed with the PA and mainly relating to the reinforcement of transparency in PA's public finances (consolidation of accounts), the strengthening of the viable management of the budget (containment of expenditure and particularly of payroll) and progress regards overall financial and administrative reform.

In particular, the following conditions are being evaluated on the basis of a monthly comfort letter issued by the IMF:

1. The proper implementation of the austerity budget, which foresees a ceiling of US\$ 89 m for current expenditure;
2. That budgetary revenue including donors' contributions should not exceed the austerity budget's expenditures;
3. Containment of arrears;
4. Consolidation of accounts and containment of expenditure (in particular of the payroll);
5. Pursuance of the financial and administrative reform platform;
6. Progress in the pension reform.

The first package of direct budgetary assistance has had a significant structural impact through :

1. the reinforced transparency in PA's public finances following the monitored consolidation of accounts;
2. the viable management of the PA's public finances through the containment of expenditure and particularly of payroll in the context of the implementation of the austerity budget and
3. the further unlocking of contributions from other donors particularly Arab ones (it has been estimated that Arab donors contributed US\$ 299 m in the period June to Dec. 2001)

In the most recent EU budgetary assistance package of € 50 m, which covers monthly payments from March to July 2002, the above mentioned conditions monitored by the IMF have been further reinforced with, *inter alia*, the following:

1. Integration of the investment budget into the overall 2003 budget of the PA in order to reinforce transparency in PA's public finances. This will allow the investment budget to be under the direct control of the Minister of Finance and will strengthen the consolidation and the unity of the budget;
2. The breakdown of the overall arrears and separately for Education, Health and Social Affairs to further strengthen the transparency of public finances;
3. Acceleration of the pension reform so that the systems currently implemented in West Bank and Gaza become actuarially sound and financially sustainable;
4. Legal reform through the promulgation of the Judiciary Independence Law.