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Subject: Council Conclusions on the European Court of Auditors' report on EU Direct
Financial Support to the Palestinian Authority

Delegations will find attached the Council conclusions on the European Court of Auditors' report on EU Direct Financial Support to the Palestinian Authority, as adopted by the Council on 16 June 2014.

**Council Conclusions on the European Court of Auditors' report
on EU Direct Financial Support to the PA**

1. The Council welcomes the report of the Court of Auditors No.14/2013 published on 11 December 2013 on EU Direct Financial Support to the Palestinian Authority through the PEGASE mechanism, which it has thoroughly studied.
2. The Council welcomes in particular the Court's Conclusion that the Commission and the EEAS services have succeeded in implementing direct financial support in spite of difficult circumstances, that the financial procedures put in place are robust and that there is no evidence of corruption, mismanagement or diversion of funds.
3. The Council agreed that, in line with the EU's objectives in the Middle East Peace Process, PEGASE has fulfilled the aim of making a tangible contribution to the preparation of a two-state solution. The Council also notes the Court's conclusion that some aspects of the PEGASE mechanism need to be reviewed to ensure its sustainability. Specific risk assessments beyond the eligibility criteria could also be considered.
4. In considering the Court's observations, the Council stressed the importance of recognising the complex and difficult political circumstances of the EU's co-operation with the Palestinian Authority including the context of Israeli occupation, the fact that the PA does not yet have the powers of a state government and that part of the occupied Palestinian territory, the Gaza Strip, is run by de facto authorities with which the EU has no political relations.
5. The Council takes note of the recommendations of the Court. The Council acknowledges that the majority of the Court's recommendations are already being implemented. The Council notes that both the EEAS and the Commission services already review the PEGASE mechanism on a regular basis, taking account of changes on the ground. The Council also notes that the Commission has already taken the required steps to reduce the costs of administering PEGASE including through the use of competitive tendering. The Council also welcomes the recommendations to link the PEGASE mechanism more closely to the EU-PA European Neighbourhood Policy Action Plan adopted in 2013.

6. Concerning the issue of those civil servants in Gaza who are not able to work due to the political situation, the Council underlined that it is politically important to continue supporting the Palestinian Authority's decision to pay its workers in the Gaza Strip as a key element of maintaining the PA's presence in Gaza and the unity of a future State of Palestine. The Council noted that the EEAS and the Commission services have agreed to enter into discussions with the PA to find a solution that would take into account the concerns of the Court while allowing the PA to continue supporting its employees in Gaza. The Council stressed that reforms need to be made where possible while acknowledging that it is important to carefully assess the political implications of any changes to the current practice.

7. Concerning conditionality, the Council notes that it is key that performance indicators will be introduced in the areas suggested by the Court, bearing in mind that many of the elements required to fulfil these indicators lie partly or wholly outside the control of the Palestinian Authority. In this regard, the Council concurs with the view of the EEAS and the Commission services that the unique and difficult circumstances in which the programme is implemented must be taken into account. The Council also notes that, in line with one of the recommendations of the Court, the Commission has already started providing comprehensive support to the PA for its civil service reform. In this regard, the Council calls on the PA to accelerate reforms in its civil service, to proceed with reforms in public finance management and to pursue further dialogue with the EU and other donors in the relevant sector working groups.

8. The Council also acknowledges that the Commission and the EEAS services have actively sought to ensure Israeli co-operation in the implementation of EU direct financial support to the PA and calls on the Israeli authorities to take steps that would render the EU's financial assistance more effective.
