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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX I**

of the Commission Implementing Decision on the on the annual action plan in favour of Palestine<sup>1</sup> for 2022

**Action Document for PEGASE<sup>2</sup> Direct Financial Support to the Palestinian Authority 2022**

**ANNUAL ACTION PLAN**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan/measure in the sense of Article 23(2) of NDICI-Global Europe Regulation

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title OPSYS Basic Act</b>	PEGASE: Direct Financial Support to the Palestinian Authority 2022 Annual action plan in favour of Palestine for 2022 OPSYS business reference: NDICI-GEO-NEAR/2022/ACT-61020 ABAC Commitment level 1 number: JAD.1114845  Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Palestine
<b>4. Programming document</b>	European Joint Strategy in support of Palestine 2021-2024 <sup>3</sup>
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Pillar 2 - Governance Reform, Fiscal Consolidation and Policy Pillar 3 - Sustainable Service Delivery
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	150, Government and Civil Society; 160, Other Social Infrastructure and Services; 120, Health; 110, Education

<sup>1</sup> This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

<sup>2</sup> Palestino - Européen de Gestion et d'Aide Socio-Economique.

<sup>3</sup> C(2022) 8279 of 22/11/2022

<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG 1 No Poverty Other significant SDGs: SDG3 Good Health and well-being; SDG4 on quality education; SDG6 on clean water and sanitation; SDG7 on affordable and green energy; SDG 16 Peace, Justice and Strong Institutions Develop Effective Accountable and Transparent Institutions			
<b>8 a) DAC code(s)</b>	Main DAC code – 15110 – Public sector policy and administrative management 50 %; Other DAC codes: 16010 - Social protection 40 % 12191 - Medical services 10 %			
<b>8 b) Main Delivery Channel</b>	Recipient Government – 12000			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers and Tags</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Tags			
digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital entrepreneurship	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital skills/literacy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<u>Connectivity</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tags			
digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
education and research	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### BUDGET INFORMATION

#### 12. Amounts concerned

Budget line: 14.020110 southern Neighbourhood

Total estimated cost: EUR 117 900 000

Total amount of EU budget contribution EUR 113 000 000

This action is co-financed in parallel by:

- Italy for an amount of EUR 1 000 000;
- Finland for an amount of EUR 1 700 000;
- Spain for an amount of EUR 1 000 000;

The Commission will be entrusted with the responsibility of managing the contribution for an amount of EUR 1 200 000 transferred by Austria after the signature of the corresponding transfer agreement, in accordance with the procedures applicable to the EU budget.

### MANAGEMENT AND IMPLEMENTATION

#### 13. Implementation modalities (type of financing and management mode)

Project Modality

**Direct management** through:

- Grants
- Twinning grants
- PEGASE Direct Financial Support
- Procurement

**Indirect management** with entities to be selected in accordance with the criteria set out in section 4.3.4

## 1.2. Summary of the Action

The **PEGASE programme aims at contributing to a democratic, accountable, economically viable Palestinian state as well as the fulfilment of social rights.** The specific objectives are: (1) improved access to social public services for all; (2) improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting. The action's objectives and policy related outputs (indirect outputs) are underpinned by the following direct outputs: eased financing for social public services; enhanced administrative and technical capacity of the Palestinian Authority (PA) institutions; improved coordination with government, development partners and Civil Society Organisations (CSOs) for enhanced policy dialogue at global and sector level; improved rights-based, and adaptive social systems

The overall contribution of the EU for 2022 amounts to EUR 113 000 000 and EUR 1 200 000 as transfer contribution from the Government of Austria. Key components of this Action are: a contribution to the payments of the salaries and pensions of civil servants (CSP, EUR 50 000 000), part of which is triggered by the fulfilment of the defined targets related to the agreed reforms in the following indicative areas of PFM, water, energy and health; a contribution to the social allowances to vulnerable families (cash transfer programme – CTP, EUR 40 000 000); and a contribution to the payment for the referrals to the East Jerusalem Hospitals (EJH, EUR 13 000 000).

In continuity with previous contributions, this Action aims at ensuring: a) an increased weight of the results based component to stimulate reforms; b) a stringent governance system to enhance policy dialogue and monitoring of implementation through a dedicated Steering Committee, c) a more solid assessment of the reform process and its achievements through a system of external oversight, d) strengthening the synergies with complementary capacity development activities and e) the perspective of a multi annual reform agenda for key sectors as part of the overall policy discussion. In line with the overall ambition to contribute to the building of accountable, democratic, effective institutions ready for final statehood, the programme will engage in a constant policy dialogue with the authorities to ensure that progress is taking place in the broader area of democratic governance.

The Action will contribute to the achievement of the following Sustainable Development Goals (SDGs): SDG 1.3 on social protection; SDG 3.8 on universal health coverage; SDG4 on education; SDG6 on water; SDG7 on energy; SDG 16.6, supporting the setting up of strong institutions at all levels.

**PEGASE strong safeguard system of ex-ante and ex-post controls will be maintained.**

## 2. RATIONALE

### 2.1. Context

Palestine is home to 5.2 million people according to the Palestinian Central Bureau of Statistics (PCBS) projection for 2021, of which around 3 million in the West Bank (including East Jerusalem) and 2 million in the Gaza Strip. According to United Nations Relief and Works Agency for Palestine Refugees (UNRWA), 1.07 million Palestinian refugees live in the West Bank, 1.6 million in the Gaza Strip. According to the poverty survey carried out by the (PCBS) in 2017, the poverty rates trend worsened in Gaza to 53% compared to 38.9% in 2011, and have further worsened following the conflict of May 2021, reaching a level of 59.3% in 2021, according to the World Bank. The poverty situation improved in the West Bank, reaching 13.9%, compared to 17.6% in 2011. Deep poverty increased in Gaza from 21.1% in 2011 to 33.7% in 2017 and decreased in the West Bank from 7.6% in 2011 to 5.8% in 2017. The next poverty survey will be carried out

by PCBS in 2022. In terms of Human Development Index, Palestine was ranked 115<sup>th</sup> out of 189 in 2020, in the medium category. Based on the latest assessment of PCBS, unemployment was at 26% in 2021, 15.6% in the West Bank and 46.9% in Gaza. It is particularly pronounced among youth with a tertiary degree (18-29 years), for which it reached 39% among males (68% in Gaza) and 69 % among females (90% in Gaza). This high and increasing levels can be ascribed to a large extent to the negative impact of the occupation that has resulted in an impaired Palestinian private sector, a dampened investment atmosphere and de-development of many sectors of the economy. Limited reforms in Palestine in terms of improving business environment and reducing state capture and corruption have made the economic environment less conducive for economic development.

The institutional governance and human rights situation is worsening. Since the 2007 suspension of the Palestinian Legislative Council (PLC), legislation has been adopted through Presidential Decree Laws that are de facto applied only in the West Bank. In Gaza, Hamas has been enacting laws through a proxy PLC. Legislation produced in this way has weakened social legitimacy. In addition, separated legislative and institutional processes, including judicial ones, have also aggravated a deeply rooted dichotomy of the Palestinian legal and justice system and impeded citizens' access to justice on a national level. In the absence of parliamentary oversight, democratic governance is also affected by initiatives that undermine the independence of judiciary, fair trial and constitutional justice and that have enabled a concentration of powers in parts of the executive.

Palestine has acceded to many international human rights treaties, including the nine core ones<sup>4</sup>. Nonetheless, as of May 2022 only two treaties are in force (the International Conventions on the Elimination of All Forms of Racial Discrimination and on the Rights of the Child- CERD and CRC) while the relevant provisions related to the remaining ones still need to be published in the Official Gazette. Legal uncertainty is compounded by increasing human rights violations by all duty bearers, feeble public accountability and shrinking space for civil society (see below).

The absence of national elections for over 15 years has contributed to widespread political distrust among the general population and aggravated the marginalisation of already vulnerable segments of society from participating in public life. More than 1 million Palestinians or approximately 40% of registered voters have yet to participate in the election of their leaders.

Gender equality remains a challenge. According to PCBS, in 2017 15% of Palestinian women were married before the age of 18. Traditionally, unemployment affects women disproportionately. There is a major gender discrepancy in the labour force participation rate with a 69.9% for males and only 16.1% for females<sup>5</sup>. Women, including adolescent girls, are identified as the most structural disadvantaged group by the UN vulnerability assessment and the Ministry of Social Development (MoSD) social development sector strategy 2021-2024.

The macro-fiscal situation has been particularly difficult in Palestine since 2019. The economic and fiscal crisis has been compounded by slow economic output in 2019, prolonged clearance revenue standoff,<sup>6</sup> COVID-19 pandemic in 2020, which still impacted in 2021, and another round of revenue deductions by the Israeli authorities (about USD 200 million), and slow economic recovery during 2021. The real GDP has shrunk by 11.3% in 2020 and rebound partially by 6.7% in 2021 while the budget deficit reached about 6.3 % of GDP after aid. Although actual revenues exceeded the projections by 14.7%, the actual budget implementation was less than planned, with major cuts in welfare (-23%) and development (-65%) expenditures. The PA continued resorting to accumulation of arrears and borrowing from domestic banks and

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<sup>4</sup> <https://www.ohchr.org/sites/default/files/documents/publications/coretreatiesen.pdf>

<sup>5</sup> PCBS Labour Force Survey 2020

<sup>6</sup> According to the Protocol on Economic Relations, Israel charges a 3 per cent fee for collecting clearance revenue on behalf of the Palestinian Authority. The Government of Israel (GoI) deducts certain amounts from the monthly taxes it collects on behalf of the PA. Israeli imports and other excise taxes, are paid for through deductions to PA clearance revenues.

the Arab financial institutions, with the total government public debt having reached 20.9% of GDP (USD 3.6 billion) without arrears and 49.3% of GDP with arrears incurred to the private sector, public sector employees and the Palestinian Pension Fund.

Under the Government Effectiveness Index of the World Bank, in 2020 Palestine value was -0.64 (23.85 over 100), significantly worse than in 2017 when it scored -0.40<sup>7</sup>. The level of inclusiveness in policy making is slightly improving, with the Voice and Accountability index staying at -0.83 in 2020 compared to -1.03 in 2017 (25.12 over 100). These dynamics cannot capture the developments on the ground that happened in 2021 in terms of violation of freedom of expression and human rights and reduced inclusiveness in policy making. Palestine is heavily dependent on donors' support, with a level of net ODA representing 13.5% of the GDP in 2019. The unpredictable nature of the flow of revenues collected on behalf of the PA by the Israeli authorities (65-70 % of total revenue), and the decline of donor support (budget support represented 42% of total public expenditures in 2010, compared to only 9.2% in 2020, and dropped by 55% in 2021 compared to the budget estimates), create additional constraints.

Palestine, as occupied territory, is the scene of violent conflict at all times to varying degrees. In particular, the Israeli actions of the West Bank, with all its manifestations (restricted movements, limited access to resources for Palestinians, Gaza blockade, excessive use of force by the army against civilians, including children (more than 2,171 since 2000), as well as the Palestinian geographical and political fragmentation and the delegitimisation of the Palestinian rulers represent conflict drivers. This has materialised in different ways: significant violations of human rights; killing of activists; political prisoners; arbitrary or unlawful interference with privacy; restrictions on free expression, the press, and the internet, including violence, threats of violence, unjustified arrests and prosecutions against journalists, censorship, and site blocking; substantial interference with the rights of peaceful assembly and freedom of association, including harassment of (NGOs) and acts of corruption. The decision of the PA to postpone *sine die* the elections initially planned in May 2021 represented a likely trigger that, intersecting with a series of Israeli actions against Palestinians in East Jerusalem at the time of Ramadan, led to the eruption of the hostilities in May.

Insufficient water availability (with connected contamination and over extraction), soil erosion, loss of biodiversity, in a context of occupation, with privileged access for settlers to resources make climate change a future potential driver of conflict.

Below is a short analysis of the strategies relevant to this Action.

#### *Good governance*

The PA's commitment to Rule of Law based Democratic Governance is primarily provided for in the National Development Plan (NDP) 2021-2023, which pledges, among others, to consolidate and modernise Palestine's body of law, ensuring consistency with and fulfil obligations arising from Palestine's accession to international treaties; to hold regular democratic elections at all levels across Palestine; to review the constitutional framework governing the State in consistence with international contractual obligations and customary practice; to promote respect for pluralism, equality and freedom from discrimination; to uphold and protect citizens' rights and freedoms; and to improve access to justice. The National Justice and Rule of Law Strategy 2020-2023 partially reflects and aims to implement some of the above policy areas, particularly those related to improving access to and including actions to fulfil these policies although some key reforms are not addressed.

With regard to the functioning of the *Public Administration*, planning responsibility were transferred from the Ministry of Finance (MoF) to the Prime Minister Office (PMO) with the formation of the new Government in 2019. The PMO is currently responsible for strategic policy formulation, coordination and planning, though in the absence of a dedicate sector strategy. Following the publication of a Presidential decree, a Committee was set up in November 2021 to lead a reform of the public administration.

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<sup>7</sup> Scale ranging from -2.5 for weak to 2.5 for strong governance

The Public Financial Management (PFM) strategy 2017–2022 had been set to provide the PA with a framework for reforms contributing to enhanced fiscal discipline, improved allocative function of the government and efficiency in the provision of essential public services. It was also expected to support achieving the PA’s fiscal objectives through improved budgetary principles, policies and processes. A revised PFM Strategy for 2021-2023 was approved in September 2020, building on the key constraints and weaknesses identified in the Public Expenditure and Financial Accountability (PEFA) assessment from 2019. The revised strategy focuses on promoting programme-based and gender-responsive budgeting; enhanced commitment management system, accounting and internal and external controls and audit practices; and efficient, effective and fair management of public revenues. Besides, it addresses two key fiscal issues: health referrals and net lending in relation to local authorities. The updated PFM Strategy 2021-2023 has been completed by the Tax Revenue Strategy 2021-2025, with focus on domestic revenue mobilisation, tax avoidance and compliance, and tax efficiency. Overall, the revised PFM agenda is intended to pave the way for future reforms and development partners' support.

### *Education*

In the education sector, the Education Sector Strategic Plan (ESSP) 2017-2022 was revised in August 2020 and extended until 2023. The Plan aims at developing the Palestinian education system into a modern, dynamic, student-centred learning environment based on sound educational assessment systems, skills and competencies transfer, diversified methods of learning and teaching and a results-based educational management. The EU has funded a study of Palestinian textbooks that reveals a complex picture.<sup>8</sup> The EU is stepping up its engagement with the PA with the aim to ensure curriculum reform is addressed in the shortest possible timeframe. The EU has agreed with the PA to set out a specific roadmap for this work, which must include a commitment on a comprehensive policy dialogue on curriculum development and textbook review. The roadmap, to be agreed with the PA, will also establish an objective and credible process of screening and monitoring of educational material of which the PA will be fully responsible, to ensure full adherence to UNESCO standards.

### *Social protection*

In the social protection sector, prevention of multi-dimensional poverty and social protection floors for the most disadvantage population are at the core of the Palestinian Updated Social Development Sector Strategy 2021-2023. Adopting a Rights-Based Approach, it focuses on social protection rights and entitlements (including social allowances and services) of the most vulnerable. Taking lessons from the COVID-19 crisis, the Ministry is working at enhancing social assistance responsiveness in line with the Triple Nexus and in collaboration will all stakeholders, local and international, humanitarian and development partners.

### *Health*

In the health sector, Universal Health Coverage (UHC) is set at the core of the National Health Sectoral Strategy 2021-2023, focusing on nationalisation of health services, provision of comprehensive integrated quality services and responding to the emerging needs of COVID-19 with focus on high risk groups and vulnerable population. The fiscal sustainability of the health care system, including reformed national health insurance, are recognised by the NDP as priority interventions for achieving “Quality Health Care for All”, while Ministry of Health (MoH) continues to pursue the nationalisation of health services in order to reduce medical referrals’ costs, which continues to add financial burdens on the health system.

### *Water*

In the water sector, the lack of sufficient infrastructures and effective water resource management have led to a severe water shortage. With support of donors, the PA has adopted the Water Law in 2014 setting four pillars for the reform: (i) separating policy and regulation through the establishment of an autonomous regulator; (ii)

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<sup>8</sup> <http://www.gei.de/en/departments/knowledge-in-transition/analysis-of-palestinian-textbooks-paltex.html>

clustering of service providers; (iii) establishing a National Water Company as bulk water supplier and (iv) developing Water Users Associations responsible for the sustainable management of irrigation water.

### *Energy*

In the energy sector, developing access to available, sustainable and affordable electricity is the priority of the government. The electricity sector has undergone several institutional reforms, which still require further consolidation. The priority for the coming years are (i) to increase renewable energy capacity to provide and meet Palestinian energy needs, notably through engagement with private sector; (ii) develop a reliable electricity grid with functioning interconnection points, notably through infrastructures investments and agreement with external partners; and (iii) reinforce effective and efficient institutions and operators in the energy sector, notably Palestinian Energy and Natural Resources Authority (PENRA), Palestinian Electricity Regulatory Council (PERC) and Palestinian Electricity Transmission Ltd. (PETL) as well as utilities and future entities in charge of hydrocarbon.

The importance of EU intervention in these areas is related to the leadership it plays in terms of policy dialogue, in the framework of the European Joint Strategy (EJS)<sup>9</sup> (PFM, Public Administration Reform (PAR) and social protection), the significant investments realised in the funding of infrastructures (water and energy) and in the recurrent expenditures (salaries and pensions of the civil administration, social allowances and hospitals' arrears).

Other European development partners (EDPs) are leading in health (Italy), water (Netherlands) and energy (Norway), based on locally agreed division of labour. The World Bank (WB), United Kingdom (UK), United Nations Children's Fund (UNICEF), World Food Programme (WFP), International Labour Organisation (ILO), World Health Organisation (WHO), the Organisation for Economic Cooperation and Development (OECD) also deploy complementary advisory, technical and financial support in the areas of intervention of PEGASE. EDPs regularly provide funding through PEGASE Direct Financial Support (DFS).

The PEGASE DFS Cash Transfer Programme component could be instrumental for the implementation of the humanitarian-development-peace Nexus approach, allowing channelling of funds through the PA country systems in time of crisis or recovery.

## **2.2. Problem Analysis**

### **PRIORITY #1: Good governance**

In the absence of parliamentary oversight, good governance is also affected by initiatives that undermine the independence of judiciary, fair trial and constitutional justice and that have enabled a concentration of powers in parts of the executive. Last but not least, the absence of national elections for over 15 years has contributed to widespread political distrust among the general population and aggravated the marginalisation of already vulnerable segments of society. More than 1 million Palestinians or approximately 40% of registered voters have yet to participate in the election of their leaders.

With regard to public administration, the PA lacks a comprehensive public administration strategic framework for coherently developing the different public administration areas and there is no active public body fully responsible for planning and development. The main issues affecting public administration and more broadly good governance are related to limited resources and institutional governance to deliver on public policies; limited inclusiveness, effectiveness and efficiency in public policy making, also due to the lack of Parliament; limited involvement of civil society in decision and law making processes; limited transparency and accountability; insufficient coordination at the centre of government and poor monitoring and evaluation of public policies. Some of these elements have been also identified in the peer reviewed report and fact finding missions organised by the OECD in the framework of the implementation of the EU funded projects on Policy

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<sup>9</sup> C(2022) 8279 of 22/11/2022.



and law making and PAR. The role of the wage bill in affecting the present fiscal crisis of the PA, as outlined clearly by the Minister of Finance in presentations to a group of donors in September 2021 and February 2022, and subsequently to the Ad Hoc Liaison Committee (AHLC) in May 2022, and the setting up of a committee, following a Presidential Decree issued in the last Quarter of 2021, might represent a window of opportunity to address key reforms at stake. Data and statistics are still irregular and monitoring of the SDGs remains a challenge. While the Palestinian Central Bureau of Statistics is considered a strong institution, technical and financial support to the institution is required.

Initiatives to address challenges with Democratic Governance and the Rule of Law are addressed in this Annual Action Plan 2022 through the Action ACT 60860 on “Support to Democratisation and the Rule of Law”. The context in which the PA develops and implements its budget is sensitive as the political situation provides no certainty that the macro-fiscal estimates and fiscal flows will prove to be reliable, predictable and stable. The situation is exacerbated by the absence of fiscal sovereignty and the high dependence on the Israeli economy. Exposure to discretionary measures by the Israeli authorities, like deductions for payments of allowances to the families of Palestinians killed and/or imprisoned by the Israeli security forces, as well as the sources of the fiscal leakages, have compounded the challenges faced by the PA in collecting revenues, controlling its sources, and have contributed to a significant increase in net lending and domestic arrears, and unsustainable fiscal situation.

The PFM systems are not robust enough to respond to these challenges despite reform efforts undertaken in recent years. This concerns the budgetary cycle in all its dimensions as well as the fiscal transparency, the procurement systems, and the expenditure controls.

#### **PRIORITY #2: Foster institutional capacity for implementing social protection sector policy reforms**

The MoSD has limited financial and technical resources to implement the Social Development Sector Strategy and pursue agreed policy reforms. The annual amount budgeted by MoF to the Cash Transfer Programme is not transferred in full since 2018 (about 75% has been actually executed until 2020, including PEGASE contributions) not allowing the full payment of social allowances to the registered 114,500 families. This non-execution, more significant in 2021, where only one partial payment took place in May, weakens the country system of social protection and the potential role of the CTP in scalability and responsiveness in time of crisis (COVID-19, Gaza bombing in May 2021). Moreover, though the MoSD is progressing along the social protection floors with the revised Law for the protection of People with Disability and the drafting of the Law for Elderly, there is no guarantee that the Ministry will have the budget to implement the reforms. Finally the Ministry is instrumental for women protection including Gender Based Violence. The limited availability of updated data on poverty undermines informed decisions. The last poverty assessment dates back to 2017. In view of the time elapsed, the impact of the COVID-19 pandemic and of the hostilities in 2021 in Gaza, it is urgent that the PCBS carries out the new assessment, with technical support provided by the World Bank.

#### **PRIORITY #3: Improve institutional capacity for implementing health sector policy reforms**

The health financing system has been dependent on donor funding, which is unpredictable and unsustainable. The main two sources of public funding for health care are: i) the Government Health Insurance scheme, which is fragmented and operating at a financial gap between revenues and public expenditures, and ii) the general taxes raised by Ministry of Finance, which are regressive; they both hinder the financial sustainability of the health system. The system presently generates 15% of public expenditures and only 1.5% of public revenues, having become a source of major fiscal concern for the PA. Health financing is marked by high level of out-of-pocket expenditures reaching 40% of total health expenditures<sup>10</sup>, with a large proportion of the population not covered by any insurance scheme. One of the major issues is represented by the high cost of medical referrals, accounting for 40% of health expenditures, which continues to add financial burdens on the health system, contributing to a substantial debt and regular arrears vis-à-vis the East Jerusalem Hospitals.

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<sup>10</sup> Palestinian Central Bureau of Statistics, National Health Accounts 2000-2018, April 2020

**PRIORITY #4: Support progress in the reform process in the Water sector**

While important investments are made by the PA and donors in the sector of water, their sustainability is jeopardized by the narrow progress observed in the reform process. In this area, limited progress in the ambitious reforms are observed despite a joint support and response by donors.

**PRIORITY #5: Support progress in the reform process in the Energy sector**

The National Energy Strategy sets ambitious targets notably in the control of losses (necessary to ensure financial viability of the sector) and the development of Renewable energies, but lack of dedicated financial resources impedes their achievements. Issues of efficiency exist in relation to the Gaza Electric Distribution Company (GEDCO) in Gaza, an area that is one of the main determinant of net lending originating in the Strip, where Palestine refugees do not pay for the cost of electricity.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action

**PRIORITY #1: Support good governance**

With regard to the good governance, in general, the key stakeholders are the Ministry of Justice, the High Judicial Council, the Office of the President (Legal Advisor) and the Fatwa and Legislation Bureau (Diwan). The Prime Minister Office (PMO) has the main responsibility for aid coordination, planning and functioning of the public administration.

In Public Administration Reform (PAR), together with the PMO, the Cabinet Secretariat and the General Personnel Council (GPC) are the main stakeholders. The newly established inter-service committee represents a new actor in the reform process.

The Ministry of Finance (MoF) is the line ministry in charge of implementing the PFM strategy. The Ministry is responsible for all PEGASE payments execution. The other relevant actors are the State Audit Administrative Control Bureau (SAACB), the High Council for Public Procurement Policies (HCPPP), and the Palestinian Anti-Corruption Commission (PACC). As regards the non-government actors, there is the Civil Society Team for Enhancing Public Budget Transparency (CSTEPBT), representing 35 Palestinian CSOs and led by AMAN Transparency Palestine, which plays an increasingly vocal role in area of public sector integrity and transparency of public funds as well as participatory policy making and budgeting.

**PRIORITY #2: Foster institutional capacity for implementing social protection sector policy reforms**

The main stakeholder is the Ministry of Social Development (MoSD), which leads the social protection reforms and manages the national cash transfer programme supporting 114,500 families including 9,773 from the Gaza waiting list (in 2021). Despite scarce financial resources, the MoSD is a dynamic institution initiating relevant policy reforms along the international agreed upon Social Protection Floors principles.

**PRIORITY #3: Improve institutional capacity for implementing health sector policy reforms**

The MoH is the main stakeholder, together with the six East Jerusalem Hospitals. The Ministry is responsible for setting and implementing the health strategy, and should play a key role in the proposed reforms. The EJHs (Augusta Victoria, St. Joseph, St. John, Al-Makassed, Jerusalem Princess Bassma Centre, Red Crescent Society) serve as the main centres for specialised care within the Palestinian health system. Patients needing services and procedures that are not available in the West Bank and Gaza are referred by MoH for treatment in the East Jerusalem Hospitals. The hospitals are legally independent from the PA, to which they are linked exclusively through contractual agreements.

**PRIORITY #4: Support progress in the reform process in the Water sector**

The Palestinian Water Authority (PWA) is the leading institution dealing with policy and reforms. The water authority is working to manage, develop and protect water sources with integrated and sustainable water

supply to citizens valid for different uses and ensure the protection of the environment and the achievement of the development goals for Palestinian society.

**PRIORITY #5: Support progress in the reform process in the Energy sector**

PENRA is responsible for supervising and monitoring the generation, transmission and distribution of energy. It is in charge of the definition and implementation of the National Energy Strategy and the sector reform. GEDCO (Gaza Electric Distribution Company) has a key role in distribution of electricity in Gaza

All involved institutions present challenges in terms of capacities, with a critical aspect represented by the inter-institutional coordination and the coordination with donors, which is weak and not systematic, as also shown by the absence of active Local Aid Coordination (LAC) working groups on PAR and PFM.

### **2.3. Lessons Learned**

The external PEGASE evaluation covering the period 2016-2017 concluded that PEGASE is a ‘robust, trusted, effective and efficient assistance delivery tool. It is a catalyst for attracting other Development Partners (DP) contributions and is considered as a lifesaver by the PA.’ Though the long delay in the approval of the 2021 programme ‘has dented the reputation of the mechanism’, according to the latest PEGASE evaluation of 2021, the EU has been traditionally perceived as the most reliable and predictable partner of the PA, as also confirmed by the European Joint Strategy Mid-term review, finalised in 2020. The PEGASE evaluation for the period 2018-2019 concluded that ‘the nexus of the EJS, its Results Oriented Framework (ROF) and the PEGASE Theory of Change/Intervention Logic has enabled a coherent and coordinated approach to results-based reforms and policy dialogue’.

The programme is using country systems that can be scaled up and adapted at time of crisis, as for COVID-19. The latest programme evaluation concluded that ‘PEGASE DFS provided an effective vehicle to the PA to continue to deliver public services, and free up PA funds for the PA to handle the pandemic in 2020’. In 2020, PEGASE – with EU and EU Member States (MS) funding - has been responsive to the PA fiscal crisis by increasing funding through the DFS for the payment of social allowances or of the arrears of the cost of referrals to the six East Jerusalem Hospitals by about 20%. Over the period 2018-2020, PEGASE CSP support represented around 5% of total expenditures for salaries, wages and pensions. In the health sector, PEGASE support represented nearly 5% of total expenditures for salaries, pensions and referrals; in social development, PEGASE support accounted for 6% of the payroll of the MoSD and one third of all CTP transfers, reaching 2/3 in 2020.

The performance of the incentive-based mechanism, introduced in 2018 for the CSP component, has been gradually improving. Despite the fact that high dependence of the budget on irregular clearance revenues from Israel, has at times proven uncondusive to execute reforms as planned, all in all, the level of implementation of reforms has been reasonably good. Still, the policy dialogue at PEGASE level, though improved, was not sufficiently structured, for it lacked a proper governance platform involving the different line Ministries to ensure commitment and voice, and a proper coordinator. Furthermore, many indicators have still been of a process nature, without a clear sense of the final goal, and therefore of the outcomes to achieve. The last evaluation suggested to extent the areas covered by the incentive based approach to health and social protection.

The experience of 2021, even in the absence of an approved PEGASE programme, confirmed the positive contribution of the Steering Committee to the quality of the policy dialogue, as well as the interest of having a multi-annual indicative reform programme.

To sum up, past experience shows elements that need to be improved, such as:

- A short term focus on reforms, with process indicators (induced outputs), and some positive exceptions in relation to water and energy;
- Insufficient structured monitoring, oversighting and reporting system;

- Insufficient link and alignment with the ROF process;
- Accompanying the DFS incentive based mechanism with technical support, in view of improving the policy dialogue and create more constructive partnerships.

All the elements above have been addressed and improved by the design of the current AD. In particular, this action aims to: i) improve the governance of the programme, with the institutionalisation of a Steering Committee already introduced in 2021; ii) strengthen the monitoring and public oversight through the involvement of civil society, under a contract to be signed under the AD 2021; and iii) tap into the capacity development activities already under way to enhance the alignment with the ROF and the reform impact of policy dialogue, notably through the alignment of some indicators.

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Objectives and Expected Outputs

The PEGASE programme aims at contributing to a democratic, accountable, economically viable Palestinian state as well as the fulfilment of social rights.

The Specific Objectives (Outcomes) of this action are

1. Improved access to social public services for all;
2. Improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting.

The **Induced Outputs** represent the reforms to be generated as effect of the expected outputs, and express a change of the public administration at large, promoted through the long-term PEGASE support and contributing to the corresponding Specific Objectives (Outcomes). They are the following:

- 1.1) Contributing to Outcome 1: Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the PA;
- 1.2) Contributing to Outcome 1: Improved rights-based and shock responsive social systems;
- 1.3) Contributing to both Outcome 1 and 2: Improved public service delivery;
- 2.1) Contributing to Outcome 2, but indirectly also to Outcome 1: Strengthened PFM systems for better PFM outcomes (fiscal discipline, allocative efficiency, and service delivery);
- 2.2) Contributing to Outcome 2, but indirectly also to Outcome 1: Strengthened organisation/function of public service sector.

The **Expected direct Outputs** are:

- 1.1 Contributing to Outcome 1: Eased financing for social public services [contribution to payments of salaries of civil servants (CSP), social allowances for vulnerable families (CTP); referral costs to East Jerusalem Hospitals (EJH)];
- 2.1 Contributing to Outcome 2: Enhanced administrative and technical capacity of the PA institutions, namely at the centre of government and in the area of social services delivery;
- 2.2 Contributing to Outcome 2: Improved coordination and policy dialogue related mechanisms between government, development partners and CSOs for enhanced policy dialogue at global and sector level;
- 2.3 Contributing to Outcome 2: 4 Set-up of an external CSO-led external oversight of the policy reform process system<sup>11</sup>.

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<sup>11</sup> Only mentioned per memoriam, since activities related output are funded under PEGASE AD 2021, but will only start towards the end of 2022.

### 3.2. Indicative Activities

The indicative activities are as follows:

#### Activities related to Output 1.1 - Eased financing for social public services

- **Civil Servants and Pensioners (CSP):** This activity complements PA resources to maintain the functioning of the administration effectively under its control and thus contributing to the payment of salaries and pensions for around 55,000 PA eligible civil servants and pensioners, namely in the health, social protection, education and justice sectors. The annual allocation is disbursed according to a timetable agreed upon with the PA and taking into consideration the results of the incentive tranche indicators.
- **Cash Transfer Programme (CTP):** From the total 114,409 CTP beneficiaries of the MoSD database, and following the new ex-ante verification carried out by EY in 2021<sup>12</sup>, PEGASE will contribute to quarterly CTP payments to an average of the 81,976 PEGASE eligible families from the regular CTP database (including 63,655 in Gaza) and 9,741 families from the Gaza waiting list.
- **East Jerusalem Hospitals (EJH):** PEGASE will support the PA with a financial contribution to partially cover the outstanding invoices of medical referrals to East Jerusalem hospitals.
- **Safeguarding measures: audit, verification, monitoring, screening and IT support of PEGASE DFS programmes**

High standards of control will be maintained through a well-established safeguards system. Such system includes audits (ex-ante and ex post), verification, control, monitoring, screening and IT systems enabling the tracking of beneficiaries against sanction lists. In addition, a pool of sector experts will be contracted to support with the assessment of the disbursement indicators under the incentive based component of CSP.

#### Activities related to Output 2.1 - Enhanced administrative and technical capacity of the PA institutions

Outputs produced in terms of capacity development through this Action are complemented by substantial support provided by former PEGASE ADs.<sup>13</sup> Proposed support in this Action is the following:

- **Capacity development of PA institutions through twinning activities, indicatively in the area of tax administration reform, environment, health, social protection and other social services.** It could tentatively target support to (i) Palestinian Revenue Commission (regulatory framework and international standards, risk-based management systems and tools, taxation of e-commerce etc.), (ii) support to the Ministry of Health in achieving the objective of universal health coverage and shock responsiveness preparedness.
- **Support to the implementation of the Palestinian Expenditure and Consumption Survey (PECS).** The PECS was last done in 2017 and there is a need to update socio-economic statistics including household multi-dimensional poverty data necessary for decision-making. This activity will be of crucial importance to support work, especially in the area of social protection.
- **Contribution to the CTP impact evaluation.** This activity is foreseen in order to support the Ministry of Social Development in view of coming up with sufficient evidence on the impact brought about by the Cash Transfer programme implemented by the Ministry and supported by the EU. This

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<sup>12</sup> Global Assessment Report: Ex-ante verification report for assessing the soundness and reliability of the Palestinian National Programme for Social Protection Cash Transfer Programme (“CTP”), Ernst and Young , 3 November 2021

<sup>13</sup> These interventions concern the PAR programme with the OECD, about to be signed, the ongoing support to the Office of the Quartet, the PFM focused programme with the World Bank, the contract signed with ILO to support the MoSD, a contract signed to support the MoSD in the area of monitoring and evaluation, as well as the ongoing twinings and those to be signed.

might inform future orientation of the programme, in view of the possibility to expand it to other areas (people with disabilities, elderly, new poor) and to attract other donors to its support.

- **Technical assistance and policy dialogue to support MoH in health financing reform, while ensuring financial protection for vulnerable population groups to enable progress towards Universal Health Coverage.** This activity will support MoH to enhance health financing strategies to rationalise health expenditures, improve efficiency of the medical referrals system and reduce costs. In addition, it will support policy dialogue with MoF and MoH to enhance alignment between PFM and health financing policies.
- **Technical assistance and support to service delivery in Gaza in alignment to PA institutional priorities.** This action will support municipal local governance structures in Gaza in improving service delivery and accountability processes, with priority given to development of renewable energy, energy efficiency gains regarding public buildings, combined with educational and awareness raising activities. It builds on previous support to local governance in Gaza Strip.
- **Audit of GEDCO,** to continue the implementation of the recommendations of the past audit, with a focus on PFM related aspects, and launch of the second audit, agreed with MoF, PENRA and GEDCO for the years 2019, 2020 and 2021

### **Activities related to all Outputs - Improved coordination with government, development partners and CSOs for enhanced policy dialogue at global and sector level (not budgeted)**

The PEGASE system has already contributed to improve the way support is given to reforms of the PA and the way policy dialogue is structured and carried out. Regular meetings are held with the MoF, the PMO and the relevant line Ministries. The ROF dialogue is taking place around the different pillars of the EJS/ROF. European countries, plus international organisations and other partners involved in the supported PEGASE reforms are involved in the PEGASE interest group meetings. Partners are also asking the PA to put in place a LAC working group in the areas of PFM and PAR, besides those already taking place in the other sectors.

A number of elements will contribute to strengthen the policy dialogue: increased coordination; direct financial support provided, also making the disbursement of part of the CSP funds linked to the achievement of certain policy measures and targets set in agreement with the authorities; the technical assistance provided; the enhanced governance system of the programme, with the setting up of a Steering Committee including the PMO and the relevant line Ministries involved in the reform process, along with the policy dialogue already in place through the ROF system. This objective will also be achieved through the implementation of a system of public oversight funded under the PEGASE AD 2021.

### **3.3. Mainstreaming**

#### **Environmental Protection, Climate Change and Biodiversity**

**Outcomes of the Environmental Impact Assessment (EIA) screening:** The EIA screening classified the action as Category C (no need for further assessment).

**Outcome of the Climate Risk Assessment (CRA):** The CRA screening concluded that this action is no or low risk (no need for further assessment). No further action was required as the Action is primarily centred on the governance of social services provision.

There are limited opportunities regarding environment, biodiversity and climate change in the sectors of intervention. Still, the programme aims at making the most of these opportunities, particularly in the framework of the above mentioned PEGASE Incentives Mechanism – some disbursements are linked to the achievement of reform objectives jointly selected with the PA – where two sectors target climate change and adaptation measures in the energy (renewable energy and decrease of losses) and water (re-use and decrease of losses) sectors. Over the medium term, it is expected that policy dialogue with the institutional counterparts

will help bring green budgeting to the fore of the discussions. Advocacy will be carried out to have this aspect integrated in the PFM strategy.

### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that in line with the priorities of the EU Gender Action Plan III 2021-2025 (GAP III)<sup>14</sup> and the Country Level Implementation Plan (CLIP) for Palestine agreed with EDPs in October 2021, PEGASE will have direct activities on: Freedom from all forms of gender-based violence by supporting the MoSD, women participation and leadership with the PAR reforms and gender based budgeting with the MoF. PEGASE also has indirect activities in strengthening economic and social rights with the support to the social allowances system and the support of reforms along social protection floors.

### **Human Rights**

The EU, in cooperation with the MS, is committed to enhance the policy dialogue around the respect of human rights also within the framework of PEGASE, addressing these issues through the multi annual indicative reform matrix.

### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. The mainstreaming of persons with disabilities (PwDs) is key for social sectors. Out of the 114,400 poor and vulnerable families targeted by the MoSD CTP, some 18,282 have a PwD as head of household (16%) and the Ministry is finalising a new Law for the protection of PwD.

### **Democracy**

This Action aims at supporting democratic governance, through promoting the principles of transparency, participation and accountability. As it appears from the context description, these principles have faced a deteriorating trend in recent times in Palestine, with restrictions to the freedom of expression, cancelled elections, un-transparent, little inclusive decision making process, shrinking space for civil society, violations of human rights. This dimension will be addressed through the policy dialogue (Joint Committee and sector Sub-Committees in the framework of the Interim Association Agreement, regular consultations with the authorities and civil society, LACs working group meetings).

### **Conflict sensitivity, peace and resilience**

The programme has been designed, building on past experience, with the aim to preserve the capacity of the PA to deliver relevant social services to the population, ensuring its resilience and enhance confidence building initiatives to let Israel and the PA to cooperate in areas where there is a perspective to improve the wellbeing of the Palestinian population and keep the peace and the perspective of the two states solution alive.

### **Disaster Risk Reduction**

The Action will contribute to the Triple Nexus with the CTP component that could be used as a reliable and scalable instrument to channel funding in times of crisis in order to provide cash transfers to vulnerable families particularly affected in times of natural shocks or conflict. The MoSD, supported by EU, is aiming at improving the shock responsiveness of the social protection systems. Coordination with the European Civil Protection and Humanitarian Aid Operations and humanitarian actors are enhanced since the development of a roadmap to operationalise the Triple Nexus for social assistance.

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<sup>14</sup> SWD(2020)284 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020JC0017&from=EN>

### 3.4. Risks and Assumptions

Category <sup>15</sup>	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
3	Absence of a reconciliation process between the PA and the de facto Authority in Gaza and/or a deterioration of the already tense situation in the territories might lead to a further polarisation in the population and worsening of the socio-political conditions.	H	M	Diplomatic engagement backed by financial support to enhance the perspectives of elections and the reintegration of Gaza in the Palestinian public administration. The ongoing programme with the OECD could step in to support of this process from a technical angle to address the integration of the two public administrations.
1	The economic and fiscal situation further deteriorates, leading to a deterioration of the social situation.	H	M	Tight budget monitoring and high level mediation efforts to settle the issue of clearance revenues. Further engagement on Domestic Revenue Mobilisation, Commitment Control system and Debt management, and accessible budget performance reporting. Ensure DFS payments according to schedule, notably in terms of social protection/health.
3	Suspension of security cooperation between the PA/Israel.	M	M	Development partners (DP) advocacy activities with Israel and the PA. Support to Office of the Quartet.
2	Utilisation of PEGASE funds to finance terrorism.	L	H	This risk is very much limited by the strong safeguard measures that have been put in place to track the utilisation of funds.

#### External Assumptions

- Israel and Palestine remain committed to the perspective of the two-state solution and work through confidence building measures.

<sup>15</sup> The risk (category) can be related 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information.



- The fragile fiscal situation of the PA does not prevent delivery of basic services by the public administration.
- The PA remains committed to implement its reform agenda in the sector relevant to this programme.

### **3.5. Intervention Logic**

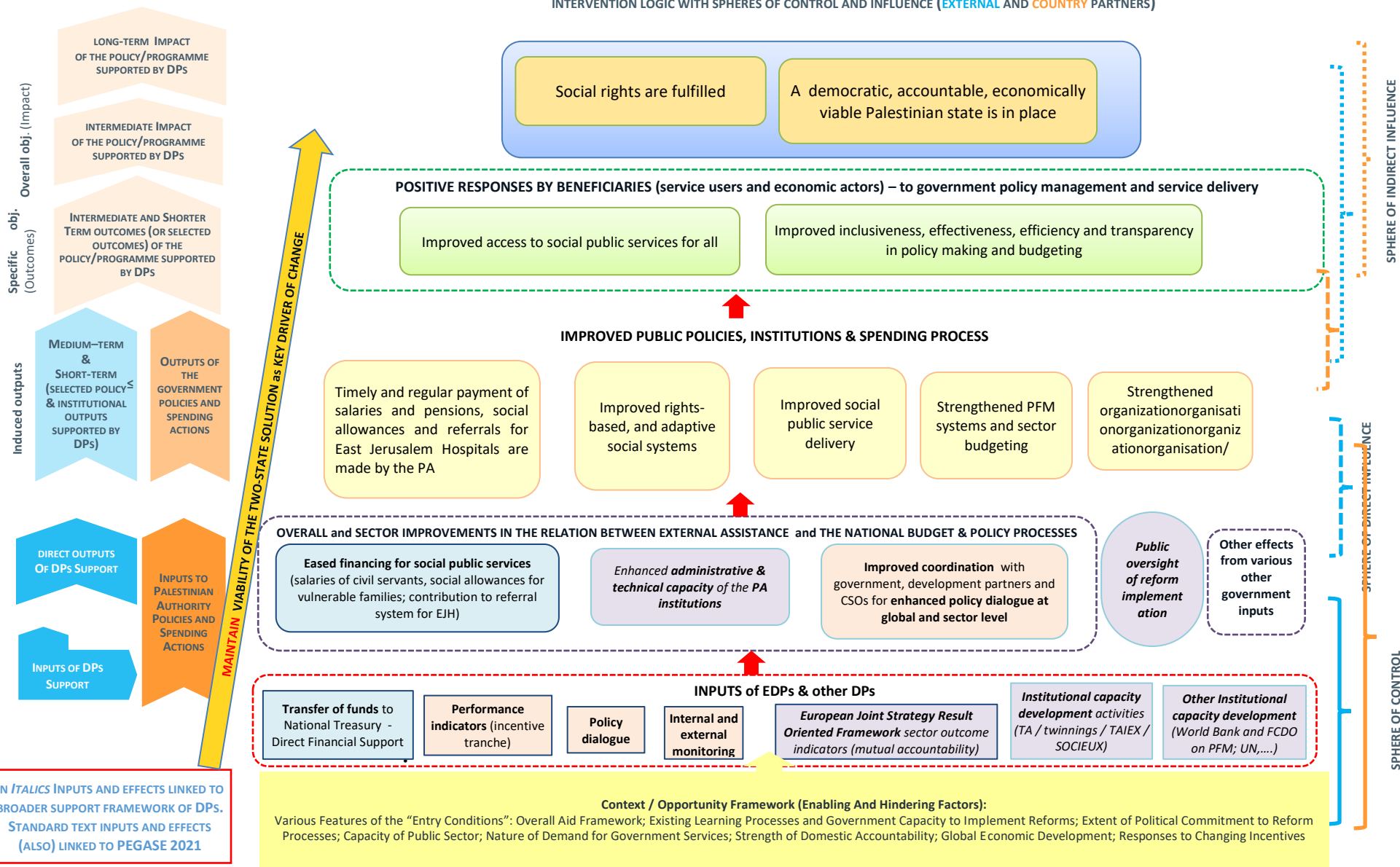
In the perspective of keeping the viability of the two-state solution, the programme aims at contributing to the achievement of a modern and functioning Palestinian state. The establishment of a well-functioning and modern public administration is a pre-requisite to achieve national development outcomes, in particular in priority sectors such as health, education and social protection. It is expected that a modernised and digitalised public administration can foster inclusive public policy-making by ensuring a rights-based approach and taking account of environmental and climate impact. Furthermore, the programme will focus on PFM reforms initiated by the PA, as a fundamental cross sectoral way to improve the governance system, and a more sustainable social services delivery.

In line with the 2030 Agenda, the programme will support the fulfilment of social rights and the setting up of a democratic, accountable, economically viable Palestinian state. In order to achieve these goals, it will aim at strengthening access to social public services for all, on the one side, and at improving inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting, on the other side.

By ensuring systematic and largely predictable contributions to the PA's recurrent expenditures through the PEGASE DFS mechanism, the EU will support the PA fiscal resilience in the PEGASE targeted sectors, while at the same time linking an increasing percentage of the disbursements to the achievement of mutually agreed reforms.

The chain of results, as reflected in the following graph, should be considered on the basis of a long term perspective.

INTERVENTION LOGIC WITH SPHERES OF CONTROL AND INFLUENCE (EXTERNAL AND COUNTRY PARTNERS)



*IN ITALICS* INPUTS AND EFFECTS LINKED TO BROADER SUPPORT FRAMEWORK OF DPs. STANDARD TEXT INPUTS AND EFFECTS (ALSO) LINKED TO PEGASE 2021

### 3.6. Indicative Logical Framework Matrix

	Results chain: Main expected results	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources of data	Assumptions
<b>Impact (Overall Objective)</b>	Contributing to a democratic, accountable, economically viable Palestinian state as well as the fulfilment of social rights	SDG 1 **SDG 1.2.1/EURF/EJS ROF. Proportion of population living below the national poverty line, by sex and age	SDG1: 2017 Palestinian Expenditure and Consumption Survey (PECS). Extreme poverty 16.8% (5.8% Westbank, 33.7% Gaza) National 29.2% (13.9% Westbank, 53% Gaza). By sex: 28.8% males, 29.7% females. By age: 0-9:31%, 10-17: 29.7%, 18-19: 27.5%, 20-29: 30.2%, 30-39: 29.9%, 40-49: 25.7%, 50-59: 25.2, 60+:26.5%	2030: 0 extreme poverty (global target) 2024 milestone: see MoSD (Next PECS in 2022)	PCBS/UN SDG statistics	<i>Not applicable</i>
		SDG 3 3.8.2 Proportion of population with large household expenditures on health more than 10% and more than 25% of the total household expenditure or income	SDG3: (PECS 2017) 9% (household expenditures on health more than 10% of total household expenditures) 1.5% (household expenditures on health more than 25% of total household expenditures)	2030: 3% 2024: (Next PECS in 2022-23)	PCBS/UN SDG statistics	
		<i>Governance effectiveness Index</i>	2020 : 28.85	2023: 32	WB – WGI	
		<i>Voice and Accountability index</i>	2020 : 25.12	2023: 30	WB – WGI	
<b>Outcomes (Specific Objectives)</b>	1. Improved access to social public services for all	1.1 (ROF) Proportion of families in deep poverty receiving social allowances under the Cash Transfer Programme (in West Bank and Gaza), including female headed, elderly headed, people with disability headed and number of	1.1 2020: 77% of total deep poor families targeted. 114,399 families registered in 2020: 98,239 with deep poverty scores while total number of deep poor families are 127,048	1.1 To be determined by MoSD after PECS. Estimation by MoSD: 85% in 2022, 90% in 2023, 100% in 2024	1.1 MoSDS/PCBS	The fragile fiscal situation of the PA does not prevent delivery of basic services

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
		<i>quarterly payment made (out of the four annual payments)</i>	(PCBS 2017). *47,647 female-headed, 18,82 PwD, 37,476 elderly-headed 79,269 in Gaza, 35,130 in West Bank. Three quarterly payments made			by the public administration
		<i>1.2 Number of patients disaggregated by sex and region referred to East Jerusalem Hospitals for receiving needed specialised health care services</i>	1.2. 2021: 17,846	1.2 ≥23,000	1.2 Annually -MoH data on referrals	
	2. Improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting	<i>2.1 Level and quality of implementation of reform agenda supported by PEGASE</i>	2.1 No external assessment	2.1 Good level of implementation of supported reform agenda	PEGASE internal report, also based on reports of partners	
<i>2.2 Level of adequacy of the regulatory framework for an effective public consultation process</i>		2.2 Absence of an official regulation in place enabling a participatory, evidence-based system for policy making at the centre of government	2.2 A regulation is in place that sets out procedures for public consultation (2023)	Cabinet Secretariat/PMO/PCBS		
<i>2.3 Level of inclusiveness, participation and access to the budget</i>		2.3.1 Citizen Budget (CB) for Fiscal Year (FY) 2021 is in video format and does not comply with minimum requirements for CB  2.3.2 Current Budget Strategy Paper (BSP) is an internal document without undergoing a public consultation process	2.3.1 2023: CB for FY 2023, explaining (i) expenditure and revenue totals; (ii) sources of deficit financing, (iii) main budget policy initiatives, and (iv) key macroeconomic forecasts  2023: Citizen budget for fiscal year 2024 (improving elements TBC)	PEGASE report, also based on reports of partners		

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
			2.3.3 Budget documentation fulfils 8 of the 12 elements, including all 4 ‘basic’ elements.	2024: Open Budget Survey/ Open Budget Index (OBS / OBI) ranking 2.3.2 2022: Pilot Budget Strategy Paper (BSP) for FY 2023 consulted with line ministries and agencies (LMAs) 2023: Draft BSP for FY 2024 consulted with CSOs, professional bars and associations and academia 2.3.4 2023: Budget documentation fulfils 10 of the 12 elements (4 basic and 6 additional elements). 2024: Budget documentation fulfils all 12 elements (4 basic and 8 additional elements)		
<b>Induced outputs</b>	1.1. Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the PA	<i>1.1 Level of regularity of monthly payment of salaries and pensions</i>	1.1 Not regular and often delayed payments of salaries and pensions as a result of fiscal crises	1.1 2022: 12 regular and timely payments of salaries and pensions	MoF report	Smooth implementation of IL-PA coordination
		<i>1.2 Percentage of annual budget allocated to CTP actually executed</i>	1.2 2020 budget execution of CTP : 84%, 2021 budget execution: 17%	1.2 2022, 2023, 2024: 100%	MoF report	The PA remains committed to the implementation
		<i>1.2 % of referrals bill is paid by the PA monthly to EJH</i>	1.3 Irregular payments less than 50% of monthly cost is paid	1.3 Systematic monthly advance payment to EJH (> 50%)	MoF report	

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
	1.2 Improved rights-based, and adaptive social systems (ROF outcome 2)	<p><i>1.2.1 Status of CTP window for elderly and People with disabilities (PwD)</i></p> <p><i>1.2.2 Status of MoSD M&amp;E system</i></p> <p><i>1.2.3 Status of the system for social protection shock-responsive planning, implementation and management</i></p> <p><i>1.2.4 Availability of a national road map identifying priority areas with particular attention to health financing for strengthening the health system to achieve progress towards Universal Health Coverage</i></p>	<p>1.2.1 Separate budget line for 20,000 elderly/PwD presented in the MoSD annual budget 2021</p> <p>1.2.2 Fragmented</p> <p>1.2.3 Non existent</p> <p>1.2.4 Non existent</p>	<p>1.2.1 Operational in 2023</p> <p>1.2.2 Established in 2021 and operational in 2022 with annual report available and used for planning</p> <p>1.2.3 In place in 2023 and embedded in the next social development strategy</p> <p>1.2.4 Endorsed by MoH in 2023</p>	<p>1.2.1 MoSD action plan and budget, MoSD Strategic Result Framework</p> <p>1.2.2 Annual report of MoSD</p> <p>1.2.3 MoSD, UNICEF, ILO reports</p> <p>1.2.4 Road map document/WHO reporting on UHC partnership</p>	<p>n of sector strategies</p> <p>The PA remains committed to its plans for improving service delivery</p>

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
	1.3 Improved public service delivery in the areas covered by the programme (social protection, health, energy, water).	<p><i>1.3.1 Level of clarity of government-wide objectives for improving service delivery as part of the strategic framework on public administration reform, and including digital plans for transformation of service delivery</i></p> <p><i>1.3.2 Level of installed capacity of Renewable Energy in West Bank and Gaza</i></p> <p><i>1.3.3 Amount of Reused Treated Wastewater in Tubas and Aroub</i></p>	<p>1.3.1 Lack of strategic framework for Public Administration reform</p> <p>1.3.2: 145 MW (2022)</p> <p>1.3.3: 2022: 700m3/day</p>	<p>1.3. 1 Clear objectives on improving service delivery as part of the strategic framework on PAR, including digital transformation in service delivery</p> <p>1.3.2: 200 MW (2023)</p> <p>1.3.3: Tubas : 900m3/day Aroub: 900 m3 / Day (2023)</p>	<p>PEGASE report, based on partners reports (AMAN, OECD, PMO/General Personnel Council)</p> <p>PENRA</p> <p>PWA</p>	
	2.1. Strengthened PFM systems for better PFM outcomes (fiscal discipline, allocative efficiency, and service delivery)	<p><i>2.1.1 Level of efficiency &amp; effectiveness in management of tax arrears and fight against tax evasion</i></p> <p><i>2.1.2 Level of efficiency in budget execution</i></p> <p><i>2.1.3 Level of transparency in Public Procurement System</i></p> <p><i>2.1.4 Level of progress in accounting &amp; reporting reforms</i></p> <p><i>2.1.5 Level of coverage of expenditure arrears</i></p>	<p>2.1.1.1 tbc</p> <p>2.1.1.2 – tbc</p> <p>2.1.2 Commitment Control System ready for implementation in most line ministries. Deviation in expenditure composition outturns is on average 20%</p> <p>2.1.3.1 e-GP strategy approved</p> <p>2.1.3.2 No strategy in place</p> <p>2.1.4.1 The PA’s financial statements, with undisclosed</p>	<p>2.1.1 2022: % change in n..of non-registered taxpayers 2023: % change in no.of non-registered taxpayers 2024: % change in no.of non-registered taxpayers</p> <p>2.1.1.2 2022: 10% reduction in tax arrears year-on-year 2023: 10% reduction in tax arrears year-on-year 2024: 10% reduction in tax arrears year-on-year</p> <p>2.1.2 2022: Procurement plans are prepared by all</p>	<p>PEGASE report based on MoF Reports / SAACB Audit Reports, WB report</p>	

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
		2.1.6 <i>Improved management of the wage bill</i>	<p>notes, are available for FYs 2018 and 2019</p> <p>2.1.4.2 Accounting and reporting based on (Government Finance Statistical Manual (GFSM) 2001 standards</p> <p>2.1.5.1 Expenditure arrears monitoring is incomplete and does not include all categories of arrears</p> <p>2.1.6.1 The current wage bill is oversized and equals 95% of the PA revenues</p>	<p>line ministries at the budget preparation stage for FY 2023 )</p> <p>2023: The deviation between procurement plans and budget execution is less than 50%</p> <p>2024: Deviation in expenditure composition outturns does not exceed 15%</p> <p>2.1.3.1 2022: electronic government procurement (e-GP) system developed 2023: e-GP system implemented 2024: 80% of all government procurement transactions are done via the e-GP</p> <p>2.1.3.2 Strategy for procurement of pharmaceuticals and medical supplies - strategies/ plans for procurement of pharmaceuticals and medical supplies for FYs 2022, 2023 and 2024</p>		



	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
				<p>2.1.4.1 2022: Publication of audited financial statements for FYs 2020 and 2021 with disclosure notes on SAACB and MoF websites</p> <p>2.1.4.2 2023: Roadmap on transition from GFSM 2001 to GFSM 2014 2024: Improved quality and timing financial reports according to IPSAS standards and GFSM 2014 classifications.</p> <p>2.1.5.1 2023: Monthly budget execution report covers private sector and medical referrals arrears 2024: Monthly budget execution report covers arrears to the private sector, medical referrals and the pension fund</p> <p>2.1.6 2022: Wage Bill expenditure review completed 2023: Roadmap for wage bill reduction adopted 2024: Degree of Roadmap implementation</p>		

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>	
	2.2.Strengthened organisation/functions of public service sector	2.2.1 <i>Status of PAR strategy</i>	2.2.1 No PAR strategy	2.2.1 PAR strategy adopted (2023)	3.1 Official Gazette		
		2.2.2 <i>N. of pilot administrations with clear mandates and organisations</i>	2.2.2 0	2.2.2: 5 (2024)	3.2 OECD Report		
		2.2.3 <i>Status of Modernised Civil Service Law</i>	2.2.3 Civil Service Law drafted	2.2.3 New Civil Service Law approved. (2022)	3.3 Official Gazette		
		2.2.4 <i>Status of the strategic framework on public administration reform, covering at least service delivery, is available</i>	2.2.4 No strategic framework for Public Administration reform	2.2.4 A strategic framework with clear objectives on improving service delivery, including digital transformation in service delivery, is available (2023)			
			2.2.5 <i>Status of National Water Company</i>	2.2.5 Non existent	3.5: Company in place (2022)	3.4 Official Gazette	
			2.2.6 <i>Status of National Natural Gas Company</i>	2.2.6 Non existent	3.6: Company set up (2023)	3.5 Official Gazette	
<b>Direct Outputs</b>	1. Eased financing for social public services [contribution to payments of salaries of civil servants (CSP), social allowances for vulnerable families (CTP); referral costs to East Jerusalem Hospitals (EJH)].	1.1 <i>Amount of funding made available through PEGASE CSP</i>	1.1 No payment made (2021)	1.1 Yes: 2023	PEGASE ex-post audit, PEGASE reporting		
		1.2 <i>Amount of funding made available through PEGASE CTP</i>	1.2 No payment made (2021)	1.2 2023, 2024: Four quarterly payments made and full CTP PEGASE amounts disbursed			
		1.3 <i>Amount of funding made available through PEGASE EJH</i>	1.3 No payment made (2021)	1.3: Yes: 2022			
	2. Enhanced administrative and technical capacity of the PA institutions, namely at the centre of government and in the area of social services delivery	2.1 <i>Status of PECS</i> 2.2 <i>Status of the CTP impact evaluation</i> 2.3 <i>% of participants to OECD PAR programme trainings having improved their competences</i>	2.1 Planned in 2023 2.2 Planned in 2023 2.3 0	2.1 Finalisation of the PECS in 2023 2.2 Launched in 2023 2.3 Finalisation of the impact evaluation	2.1 PCBS 2.2 MoSD, World Bank report 2.2: OECD Report		

	<b>Results chain: Main expected results</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
				2.3 95% of participants having improved their skills		
	3. Improved coordination with government, development partners and CSOs for enhanced policy dialogue at global and sector level	<i>3.1 Level of quality (scope and nature) of policy dialogue</i>	3.1 Sufficient quality of policy dialogue	3.1 Quality of policy dialogue improved, as shown by regularity of dialogue, minutes of meetings with related action plan; % of recommendations implemented (2022)	3.1 EAMR/ROF AMAN reports	
		<i>3.2 N. of PEGASE Steering Committee (SC) meetings held with related Action plan approved</i>	3.2 - 2 (2021) 3.3: 62% (2020)	3.2 – 2 SC held as planned in 2022 3.3: 80% (2022)		3.2 EAMR report
		<i>3.3 % of performance indicators for disbursement met</i>				
	4. Set-up of an external CSO-led external oversight of the policy reform process system	Level of external oversight	No report	First report issued Improved policy dialogue	Second report issued Improved policy dialogue	AMAN

## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with Palestine.

### **4.2. Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### **4.3. Implementation Modalities**

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>16</sup>.

#### **4.3.1. Direct Management (Grants)**

##### **4.3.1.1 Support to the Palestinian Expenditure and Consumption Survey**

###### **a) Purpose of the grant**

The grant will contribute to achieve Output 2.1 (activity 3) in support to the implantation of the Palestinian Household Expenditure and Consumption Survey (PECS). It will contribute to the update of poverty data necessary to monitor the 2030 Development Agenda and to design development programmes.

###### **(b) Type of applicants targeted**

Applicants may be public institutions responsible for statistics, household surveys and poverty data collection and analysis.

##### **4.3.1.2 Support to Local Authorities capacities and service delivery**

###### **a) Purpose of the grant**

The grant will contribute to improve Gaza local governance / municipal services delivery and accountability with special attention to alternative energy and renewable resources as a public good. The grant will contribute to the delivery of Activity 8 of output 2.1- Enhanced administrative and technical capacity of the institutions.

###### **(b) Type of applicants targeted**

Applicants may be a semi-governmental organisation, or a Palestinian or international non-governmental organisation directly responsible for the preparation and management of the action. The entity must be able to demonstrate (a) the operational capacity to deliver support in the area of municipal service delivery and/or capacity building support in the context of the Gaza Strip and b) the technical and programmatic capacity to deliver local level climate change and community-led energy efficiency gains in Palestine.

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<sup>16</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu) Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

### 4.3.1.3 Twinning grants

#### a) Purpose of the grant(s)

Grants resulting from twinning procedure will contribute to achieve Output 2.1., activity 1.

#### b) Type of applicants targeted

Applicants must be EU Member State administrations and/or their mandated bodies.

### 4.3.2. Direct Management (Procurement)

Procurements will contribute to objectives 1 and 2 (more precisely outputs 1.1 and 2.1)

Activities related to Output 1.1 - Eased financing for social public services - Activity 4 - the CTP poverty impact evaluation.

### 4.3.3. Direct Financial Support - PEGASE

Direct management via direct financial support will contribute to achieve Output 1.1.

Direct management via direct financial support will be applied for all PEGASE Direct Financial Support (DFS) programmes (Eased financing for social public services - CSP, CTP, EJH). It will be implemented by the Commission through the Office of the European Union Representative to the West Bank and Gaza Strip (EUREP), located in East Jerusalem, in close co-ordination with the Palestinian Authority and EU Member States. Disbursements for DFS activities will be made by the Commission through specific sub-accounts of the Palestinian Authority's Single-Treasury Account, following eligibility checks and verification as well as control procedures by external experts and international audit firms.

Under CSP, it is intended to continue the shift from previous unconditional support to linking part of the disbursements to the achievement of certain benchmarks agreed with the PA in the framework of PA-led reforms. Good governance will continue to include elements related to PFM, with an extension to PAR, as well as democratic governance, if the discussions on the ground and the context are conducive. In line with the conclusions of the PEGASE evaluation 2018/19, the scope of the results based system will be open to health and social protection, in particular in relation to sustainable health and social protection financing, and service delivery.

For 2022, the results based amount to performance under the CSP component is EUR 25 000 000 out of a total of EUR 50 000 000. EUR 25 000 000 is disbursed based on the request of the MoF, and once the ex-ante screening is made on the lists of eligible beneficiaries.

The specific objectives that may be used for the results-based tranche of 2022 will be the achievements of established benchmarks in the following **indicative areas**:

- Good Governance;
- Water reform and sustainability;
- Energy reform and sustainability.
- Health and Social protection reforms and sustainability

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme and will be detailed, in principle, in the corresponding Financing Agreement. The EU and the PA may suggest the inclusion of new areas.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR million).

Tranches (EUR million /Years) <small>17</small>	2022
Regular Payment Tranche	25
Results-Based Tranche	25
<b>Total</b>	<b>50</b>

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In exceptional and/or duly justified cases, e.g. where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant, an incentive-based tranche indicator may be waived or neutralised. While submitting a request of transfers based on the agreed performance indicators, the authorities will have to present an evidence-based report demonstrating why and how the targets have been met. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year. It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of these provisions must be requested by the Prime Minister to the EU Representative, and authorised by the latter through an exchange of letters between the two parties.

#### **4.3.4. Indirect Management with a pillar-assessed entity<sup>18</sup>**

##### **4.3.4.1 Indirect Management with a pillar-assessed entity – Health**

A part of this action may be implemented in indirect management with pillar assessed entity/ies, which will be selected by the Commission’s services using the following criteria:

- international organisation(s)
- highly technical competence and specialisation in the area of public health, health sector reform and public financing.

The implementation by this entity entails working in close partnership with the Ministry of Health, Ministry of Finance and other partners and will provide technical assistance and assist in policy dialogue.

This concerns the implementation of the objective of the action as indicated in section 3.1 and 3.2, Activity 5 under output 2.

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<sup>17</sup> The annual timetable of the tranches will be agreed upon with the PA every year. There will be 1-2 fixed tranches and 1 variable tranche every year. The variable tranche will be last tranche of the year.

<sup>18</sup> The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessment

#### 4.3.4.2 Indirect Management with a pillar-assessed entity – Audit of GEDCO

A part of this action may be implemented in indirect management with a pillar-assessed entity which will be selected by the Commission's services using the following criteria:

- i) Access to both PA and De-Facto parties at the technical and senior level; recognised as a neutral broker between the PA and Gaza stakeholders; able to contribute to intra-Palestinian reconciliation;
- ii) Sectoral expertise in the financial and energy sector, alongside knowledge of the development of these sectors;
- iii) Ability to operate both in Gaza and West Bank

This implementation entails continuing the implementation of recommendations of the previous audit of GEDCO as well as the undertaking of a new audit in order to improve efficiency in energy delivery in Gaza and reduce the net lending for the PA. This implementation will contribute to achieve outcome 2 (Output 2.1, activity 9).

#### 4.3.5. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

If the implementation modality under indirect management as defined in sections 4.3.4.1 and 4.3.4.2 cannot be implemented due to circumstances beyond the control of the Commission, the method of implementation by public procurement under direct management would be used.

#### 4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.5. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution 2022 (amount in EUR) of which 1 200 000 from Austria</b>	<b>Third-party contribution, in currency identified</b>
<b>Output 1.1 Eased financing for social public services composed of:</b>	<b>105 300 000</b>	<b>3 700 000</b>

Direct Financial Support (direct management) - Civil Servants and Pensioners (CSP) – cf. section 4.3.3	50 000 000	
Direct Financial Support (direct management) - the Cash Transfer Programme (CTP) - cf. section 4.3.2.	41 200 000	
Direct Financial Support (direct management) - –East Jerusalem Hospitals (EJH) cf. section 4.3.2.	13 000 000	
Procurement (direct management) – Safeguards measures - cf. section 4.3.2	1 100 000	
<b>Output 2.1 Enhanced administrative and technical capacity of the PA institutions composed of:</b>	<b>8 550 000</b>	
Twining - section 4.3.1.3	1 000 000	
Indirect Management with pillar-assessed entity(ies) – Health, section 4.3.4.1	3 000 000	
Indirect Management with a pillar-assessed entity – GEDCO audit, section 4.3.4.2	500 000	
Grants –for the PECS, section 4.3.1.1	350 000	
Grants –Support to Local Authorities’ capacities, section 4.3.1.2	3 500 000	
Procurement (direct management) CTP impact evaluation, section 4.3.2	200 000	
<b>Grants</b> – total envelope under section 4.3.1	<b>4 850 000</b>	
<b>Procurement</b> – total envelope under section 4.3.2	<b>1 300 000</b>	
<b>Contingencies</b>	<b>350 000</b>	
<b>Totals</b>	<b>114 200 000</b>	<b>3 700 000</b>

#### 4.6. Organisational Set-up and Responsibilities

On the Palestinian Authority side, the leading partners in the implementation of the PEGASE DFS programme will be the PMO and the Ministry of Finance, in charge of the execution of the payments to final beneficiaries, the Ministry of Social Development, the Ministry of Health, PWA and PENRA.

All contracts and payments are made by the Commission on behalf of the Beneficiary.

The Action will be implemented by the EU through the EUREP; EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including for the following:

- liaising with the Ministry of Finance concerning eligible expenditures;



- organising and managing the process of validation, control, payment and audit; and,
- being responsible for paying contributions or for supporting payments to be made by individual donors.

A Project Steering Committee will be set up to ensure overall guidance and coordination among the different actors involved (indicatively MoF, EUREP, PMO, MoSD, MoH, PENRA, PWA). Others might be invited as appropriate. It will meet at least twice a year.

The EU might engage in discussions around the planned reforms and their implementation within existing (Local Aid Coordination Secretariat - LACs, ROF, PEGASE interest group) or ad hoc coordination platforms, whenever deemed necessary, involving relevant development partners (World Bank, IMF, FCDO, DK, ILO, WHO, and others).

Financial experts and qualified auditors will work for the programme and will be complemented by other experts as required, in particular in the fields of IT and screening against international sanctions. Experts in the sectors selected in the framework of the incentive mechanism to assess targets as well as grantees in charge to monitor the reform process will also be part of the programme.

The MoF will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources. MoF will enable EU auditors and experts to have access to the necessary documents and information to verify the implementation of the incentives-based tranche indicators. It is expected that the full cooperation from the PA counterparts will be extended to the monitors of the reform process.

Documents enabling the verification of the implementation of the proposed reforms, including those triggering the disbursement of the incentive based part, will have to be supplied in English.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## **5. PERFORMANCE MEASUREMENT**

### **5.1. Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outcomes, Indirect and Direct Outputs) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

A specific report against the overall logframe will be produced from 2022 by the EUREP using the inputs provided by MoF and other partners

The EDPs have a local division of labour under the EJS and related ROF, whereby each priority sector is led by one EDP in charge of coordinating strategic discussions with the PA institutions, identifying common priorities, relay advocacy messages and contribute to the annual ROF report. As part of the ROF process, an

annual policy dialogue meeting between the PA and EDPs is organised once a year to review the progress towards results against the milestones and targets of the ROF indicators. An annual ROF report is prepared, under the coordination of EUREP, with the contribution of EDPs sector Leads.

## **5.2. Evaluation**

Having regard to nature of the action, evaluations will be carried out at a lower frequency than in the past for this action or its components.

In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

From 2022, it is envisaged to carry out annual or biennial ROM missions to inform stakeholders on the progress against the logframe and any possible adaptation required.

## **5.3. Audit and Verifications**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## **6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY**

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [\*Communicating and raising EU visibility: Guidance for external actions\*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

Implementing partners shall keep the Commission and the EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before the implementation. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall action to the relevant monitoring committees.