



Brussels, 1.9.2020
C(2020) 6046 final

COMMISSION IMPLEMENTING DECISION

of 1.9.2020

amending Commission Implementing Decision C(2018) 1271 of 23.02.2018 on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine¹ from the general budget of the Union

¹ 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

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012², and in particular Article 110 thereof,

Having regard to Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures of the implementation of the Union's instruments for financing external action³ and in particular Article 2 thereof,

Whereas:

- (1) By its Decision C(2018) 1271 of 23.02.2018, the Commission adopted the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine, further amended by Commission Implementing decision C(2018) 8193 of 5.12.2018 and C(2019) 8754 of 28.11.2019.
- (2) The Commission should take note of the previous non-substantial changes which were carried out by the responsible authorising officer under the flexibility provision of Article 4 of this Decision: on 17.04.2019 for budgetary appropriations 2019⁴ and on 19.03.2020 for budgetary appropriations 2020⁵. The non-substantial changes include the extension of the execution period by 24 months.
- (3) It is now necessary to modify the action “PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020” (Annex I) to increase the financial contribution of the Union in response to the COVID-19 crisis by EUR 5 million for the PEGASE support to the Cash Transfer component and EUR 9.5 million for the PEGASE support to the East Jerusalem Hospitals. Furthermore, it is necessary to allow the implementation of the Public Administration Reform component under the indirect management modality.
- (4) Therefore, Decision C(2018) 1271 of 23.02.2018 should be amended accordingly.

¹ 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

² OJ L 193, 30.7.2018, p.1.

³ OJ L 77, 15.03.2014, p. 95.

⁴ Ares(2019)2524433.

⁵ ARES(2020)1564721.

- (5) The envisaged assistance is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU⁶.
- (6) This amendment is in accordance with the opinion of the ENI Committee set up by Article 15 of Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument⁷.

HAS DECIDED AS FOLLOWS:

Sole Article

Commission Implementing Decision C(2018) 1271 of 23.02.2018 on the Multi-annual Action Programme for 2018, 2019 and 2020 in favour of Palestine from the general budget of the Union is amended as follows:

(a) Article 2, first paragraph, is replaced by the following:

"The maximum contribution of the European Union for the implementation of the programme referred to in Article 1 is set at EUR 755 550 000 and shall be financed as follows:

- EUR 257 050 000 from budget line 22.040104 for year 2018;
- EUR 257 450 000 from budget line 22.040104 for year 2019;
- EUR 241 050000 from budget line 22.040104 for year 2020."

(b) The Annex 1 is replaced by the Annex to this Decision.

Done at Brussels, 1.9.2020

For the Commission
Olivér VÁRHELYI
Member of the Commission

⁶ 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.

⁷ OJ L 77, 15.3.2014, p. 27.



ANNEX 1

to the Commission Implementing Decision amending Decision C(2018) 1271 of 23.02.2018 on the multi-annual action programme for 2018, 2019 and 2020 in favour of Palestine¹ from the general budget of the Union

Multi-annual Action Document for "PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020"

1. Title/basic act/ CRIS number	"PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2018, 2019 and 2020", CRIS number: ENI/2018/40179; ENI/2019/41164 and ENI/2020/42015 financed under the European Neighbourhood Instrument	
2. Zone benefiting from the action/location	Palestine The action shall be carried out at the following location: Palestine	
3. Programming document	European Joint Strategy in Support of Palestine 2017-2020	
4. Sector of concentration/ thematic area	PEGASE Direct Financial Support (PDFS) to the Palestinian Authority (PA)	DEV. Aid: YES ²
5. Amounts concerned	Total estimated cost: EUR 468 550 000 Total amount of EU budget contribution EUR 468 550 000 The contribution is for an amount of EUR 155 050 000 from the general budget of the Union for financial year 2018, EUR 154 450 000 for financial year 2019, and EUR 159 050 000 for financial year 2020	
6. Aid modality(ies) and implementation modality(ies)	Project Modality - Direct management through: - Grants - Procurement	

^{1.} This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individuals positions of the Member States on this issue.

^{2.} Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	<ul style="list-style-type: none"> - Indirect management with an international organisation (ILO) - Indirect management with an international organisation (UNOPS) - Indirect management with an international organisation (OECD) - Indirect management with the Partner Country (Palestinian Authority) 			
7 a) DAC code(s)	16010 15110			
b) Main Delivery Channel	10000 - Public Sector Institutions 12000 - Recipient Government			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			
10. Sustainable Development Goals (SDG)	<p>Main SDG: SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.</p> <p>Secondary SDGs: SDG 1 - End poverty in all its forms everywhere; SDG 3 - Ensure healthy lives and promote well-being for all at all ages; SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.</p>			

SUMMARY

The proposed Action supports Pillar I and III of the first *European Joint Strategy in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State (EJS)*, which revolves around the two main facets of aid effectiveness and political impact by providing

opportunities to strengthen the coherence between the political objective of the two-state solution and related development policy goals.

In line with the Strategy, the Action's overall objective is to build effective and accountable institutions ready for statehood and enable inclusive social development. The specific objective is to improve public services responding to citizens' needs, including those of marginalised groups. The action's objectives are underpinned by the following results: selected institutions deliver efficient and needs-based services; timely and regular payments of salaries and pensions are made by the Palestinian Authority (PA); timely and regular payments of social allowances are made by the PA; people in need of medical referrals have access to East Jerusalem Hospitals. In so doing, the Action specifically underpins the first and third Pillars of the EJS, respectively 'Governance Reform, Fiscal Consolidation and Policy Reform' as well as 'Sustainable Service Delivery'.

Considering each financial year separately, the Multi-annual Action proposes to allocate EUR 155,050,000 for 2018, EUR 154,450,000 for 2019 and EUR 159,050,000 for 2020.

The Action builds on previous PEGASE Direct Financial Support (DFS) to the PA, which, since 2008, has accounted for over EUR 2.3 billion in contributions to the recurrent expenditure of the national budget with systematic, predictable and unconditional contributions to the payment of PA civil servant salaries and pensions (PEGASE DFS "Civil Servants and Pensioners" or CSP programme), of social allowances to the poorest and most vulnerable Palestinians families (PEGASE DFS "Vulnerable Palestinian Families" or VPF, now "Support to the Cash Transfer Programme" or CTP programme), and, since 2013, of health referral bills through the PEGASE DFS "East Jerusalem hospitals" (EJH) programme.

The proposed Action introduces a series of new key elements, including multi-annual programming, which enhances predictability; incentive-based allocations for the CSP programme, as recommended by the European Court of Auditors³; the provision of complementary support to institution capacity building for policy reform in the field of social protection, public administration reform and human resource management, so as to reinforce the expected objectives; widened monitoring and evaluation, via an expanded Results-Oriented Framework (ROF) in line with the European Joint Strategy and where PEGASE DFS can be used as leverage for policy dialogue.

A review of the modalities of the European Union's engagement in Israel and Palestine to ensure that all EU actions are supporting the achievement of a two-state solution has been completed.

To consolidate the Palestinian Authority in its general governance capacity, selected government ministries and agencies will benefit from Technical Assistance (TA) support and from EU Member States expertise through the Twinning instrument.

1. CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Palestine is home to some 4.8 million people, of which 2.9 million live in the West Bank (including East Jerusalem) and the remaining 1.8 million live in the Gaza Strip⁴. Two out of five

³. European Court of Auditors, *European Union Direct Financial Support to the Palestinian Authority*, Special Report No 14/2013.

⁴. Palestinian Central Bureau of Statistics (PCBS), 2016.

Palestinians living in Palestine are refugees.⁵ 40% of the population is under 14 years old and almost 70% of the population is younger than 30, while around 4% is over 65 years old.

Palestine has been marked by the ongoing Palestinian-Israeli conflict, as well as by the disruption of fifty years of occupation and the progressive fragmentation of its territory, including the illegal annexation of East Jerusalem. Moreover, the region has experienced regular cycles of violence and wars that have led, amongst others, to the construction of an illegal separation barrier beyond the 1967 border since 2002, and to the movement restrictions imposed by Israel on the Gaza Strip since the early 1990s and intensified in June 2007 with its closure and imposition of the land, air and sea closure.

The Oslo Accords, under which the Palestinian Authority (PA) was created in 1994, were intended to lead to a final negotiated settlement between the parties. More than twenty years after, the PA, which has operated as a transitional authority with limited jurisdiction since its creation, has full civil and security authority only in 18% of the West Bank. This takes place in the context of growing governance challenge on the Palestinian side. The last general elections were held in January 2006 and the Gaza Strip came under the de facto control of Hamas in 2007. As a consequence of this split, the work of the Palestinian Legislative Council (PLC) was suspended. No new legislative measures have been adopted by the PLC subsequently, with legal acts being promulgated instead by presidential decrees applicable only to the West Bank. In the Gaza Strip, Hamas has been enacting laws by convening a PLC through a proxy system. The PLC has been dissolved in December 2018, when President Abbas has also expressed his intention to hold elections.

Palestinian economic development and political relations with Israel are strictly linked, as Palestine runs under the framework of an uneven customs and monetary union with Israel. It has no control over its own borders and suffers from restrictions and controls on the movement of its people, goods and resources (land, water, etc.). Consequently, the Palestinian Authority has limited control over the majority of its revenues and experiences substantial losses under the current revenue sharing arrangements. Israel's intermittent withholding of clearance revenues hampers the predictability and service delivery by the Palestinian Authority and has had serious consequences, including delays in the payment of salaries. Given the severe development constraints of the Palestinian context, Palestine's revenue is still highly aid-dependent.

Palestine is a Lower Middle Income Country. In terms of Human Development Index it is one of the better off Arab States of the region (it is ranked 114 out of 188 countries in 2016). Still, longer term reforms, which are key for the Palestinian economy and the Palestinian Authority's sustainability over time, need to be addressed. The relative size of the PA's wage bill (15% of the Gross Domestic Product (GDP) is among the highest in the world and Palestine's pension system remains unsustainable. In 2016 the unemployment rate in the West Bank increased by almost 4 percentage points to 20.5%, and edged up further to 44% in Gaza. It disproportionately affects youth and recent graduates. Only 40% of those aged between 15 and 29 are active in the labour market, with dramatic differences in participation by gender (29% of female in 2016). The poverty rate averaged 15.6% in the West Bank and 38.2% in the Gaza Strip from 1994 to 1998. In 2011, the last year for which data are available, the poverty rate was about 17.8% for the West Bank and 38.8% for Gaza Strip – a net increase in poverty over the twenty-year period.

⁵. Approximately 70% of the estimated population in Gaza are registered Palestine refugees.

1.1.1 Public Policy Assessment and EU Policy Framework

The Palestinian Authority *National Policy Agenda 2017-2022 Putting Citizens First* (NPA) contains three pillars describing the strategic direction of the government: path to independence; government reform; and sustainable development. On the basis of key national priorities, sector policies have been defined to improve the quality of life of the Palestinian people, while continuing efforts to attain Statehood. The *European Joint Strategy in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State* (EJS) is closely aligned with the NPA. In line with the revised European Neighbourhood Policy and the EU Global Security Strategy, the EJS identifies economic independence, social justice and rule of law, inclusive quality education, health for all, and resilient communities among the main priorities for EU and Member States' development co-operation.

In the public administration sector, on 19 September 2017, the Cabinet approved the *National Strategic Plan of Civil Service 2017–2022*. The strategy directly links to the SDGs on areas such as gender equality, impartiality, transparency and strengthening of public institutions. It is also linked to the National Policy Agenda (2017-2022) priorities through the establishment of the following goals: i) strengthening the legislative framework of civil service; ii) modernising the Human Resource Management (HRM) policies and procedures; iii) developing the civil service Human Resources; and v) improving the IT systems related to HRM through a commitment to improving and building its civil service registry, to be unified under a single electronic system.

The Public Financial Management (PFM) strategy 2017–2022 prepared by the Ministry of Finance (MoF) in 2016 was endorsed by Cabinet in July 2017 and is set to provide the Palestinian Authority with a framework for reforms contributing to improved transparency and sustainability of public expenditures and efficiency in the provision of essential public services.

In the social protection sector, poverty reduction and service delivery are placed at the core of the government's responsibility in the Palestinian National Policy Agenda. The *Social Development Strategy 2017-2022* is proposing a comprehensive social development approach ensuring that the right to social protection for the most vulnerable is respected and protected, in particular women, children, the elderly and persons with disabilities, underpinning a Right-Based Approach. The vision of the sector strategy is: a strong, solidary, productive and innovative Palestinian society that provides dignified life for all its members, unleashes their potential and believes in rights, equality, justice, partnership and integration.

As regards medical referrals, the Ministry of Health (MoH) has embarked on a process of reform to rationalise the referral system and contain costs, culminating in the signature of Memoranda of Understanding (MoU) between MoH and seven health service providers, including three East Jerusalem Hospitals (EJH), in January 2017. Moreover, new referrals guidelines and protocols have been adopted and an e-referrals system has been launched in the course of 2017, which will further improve traceability and clarify responsibilities, whereby also strengthening quality assurance mechanisms along with the complaints' system.

1.1.2 Stakeholder analysis

For each component, stakeholders and beneficiaries differ and have been identified as follows. The **final beneficiary** of the action will be the Palestinian population as a whole, estimated at 4.8 million.

Component 1 – Selected institutions deliver efficient and needs-based services; **Main stakeholders** are the Prime Minister Office (PMO), Cabinet Secretariat (CS), the General Personnel Council (GPC), the Ministry of Finance (MoF) and Ministry of Social Development (see paragraphs below for more details).

The willingness of the above institutions' to engage in the reform agenda is considered sufficiently satisfactory but the implementation of reforms will require significant skills development on the part of the relevant institutions' staff.

Main stakeholders on the donor side are the EU, the UK, France and the World Bank.

Moreover, the Palestinian Energy and Natural Resources Authority (PENRA) and the Palestinian Energy Regulatory Council (PERC) as well as the Palestinian Central Bureau of Statistics (PCBS) have been tentatively identified as main stakeholders for Twinning support in 2018. The Twinning National Contact Point within the Office of the Prime Minister will be involved in the identification of ministries and agencies to benefit from further twinning. Discussions with the Palestinian authorities show that their main indicative priority areas are agriculture, environment, energy, social affairs, health, consumer protection, revenue collection and public service.

Beneficiaries will be the vast majority of the Palestinians who make use of public services as right holders, as well as the institutions themselves as duty bearers. Vulnerable groups such as People with Disabilities (PwDs), the elderly and women will benefit from improved availability of public services at community level, as they have limited access to other types of services due to reduced mobility.

Component 2 – Civil Servants and Pensioners: **Main stakeholders** are the Ministry of Finance, the GPC and the Pension Authority. Together they are responsible for the salaries and pensions of the Palestinian Authority staff, including the payroll, financial controls and audits. MoF is also the line ministry in charge of implementing the Public Financial Management (PFM) strategy. To date, this component targets nearly 58,000 civil servants and pensioners of which a significant majority works in the education and health sectors.

Component 3 – Cash Transfer Programme: **Main stakeholders** are the Ministry of Social Development (MoSD) which manages the Palestinian Authority's cash transfer programme and the Ministry of Finance. Despite scarce financial resources, the MoSD is a dynamic institution following through any required steps from policy development to implementation. The EU has provided technical assistance to the MoSD since 2010 to strengthen its capacities of improving and monitoring social services and developing evidence-based strategy and policy planning. Further support is essential to bring greater quality in the services provided.

This component aims to target 110,000 vulnerable families or some equivalent of 660,000 people considering an average of 6 members per family (40,132 families in the West Bank i.e. 28% and 71,728 families the Gaza Strip i.e. 72%). As of September 2017, the Cash Transfer Programme (CTP) targeted 555,221 individuals affected by deep poverty, 25,735 elderly and 32,465 PwDs, it also included 41% female-headed families.⁶

Component 4 – East Jerusalem Hospitals: **Main stakeholders** are the Ministry of Health (MoH), MoF and the six East Jerusalem Hospitals - namely Al-Makassed Islamic Charitable Hospital, Augusta Victoria Hospital, Red Crescent Maternity Hospital, St John's Eye Hospital, Princess Basma Rehabilitation Centre and St Joseph's Hospital. These hospitals provide specialised tertiary healthcare services hardly available to Palestinians elsewhere. The hospitals are legally independent from the Palestinian Authority to which they are linked exclusively through contractual agreements. In crisis situations, such as the 2014 Gaza war, they are the main providers of emergency services on the Palestinian side. The EJH are the largest remaining Palestinian-run institutions in the city.

⁶. Source: Ministry of Social Development Database.

As regards beneficiaries, in 2016, a total of 91,927 patients benefited from Outside Medical Referrals to non-MoH medical facilities, out of a total caseload of 102,000 individuals in need.⁷ With regards to referrals for Gaza patients, since 2006, the MoH has implemented a policy of universal health coverage for tertiary health care. Although the number of referrals for Gazans has improved since, numbers are still a third lower in comparison with the past.⁸ Moreover, even when granted a referral from MoH, access for patients from Gaza remains very difficult, as permits from Israeli authorities are increasingly being denied

1.1.3 Priority areas for support/problem analysis

Macro-economic instability and fiscal deficit

The Palestinian Authority fiscal position suffers a financing gap of USD 580 million (IMF, September 2017) despite a gross revenue and net revenue increase in 2017, respectively 9% and 8%. Restrictions on trade and access to resources, along with a decade long blockade of Gaza have hollowed out the productive base. The economy is import dependent with imports over three times the size of exports and a trade deficit close to 40% of the GDP. Growth in real GDP slowed to 2% on average between 2013 and 2016, and dropped to a mere 0.7% in early 2017. Budget support from donors has continued to decline, contributing to the financing gap. As a share of GDP, budget support has fallen from 32% in 2008 to under 6% in 2016. It is expected to decline further to under 5% in 2017.⁹ Additional decline in donor budget support seriously risks jeopardising an already fragile economy and further broadening the financing gap, thus leading to additional arrears to the private sector. Reducing the fiscal financing demands on banks, together with proactively managing financial risks, will enable the financial sector to better support private sector activity. According to the IMF, engagement by Israel – including the reduction in punitive and non-transparent barriers on Palestinian trade – and increased donor aid remain vital to striking a balance between achieving fiscal sustainability and investing in growth (IMF, August 2017). The proposed programme intends to afford the Palestinian Authority some breathing space while structural reforms spelled out in the PFM strategy are implemented.

Reduced access to service delivery by the most vulnerable

The fiscal gap risks undermining service delivery to citizens, with the prospect of delayed wages or social allowance payments, and insolvability to pay medical arrears, affecting the most vulnerable, in particular in Gaza. The Palestinian Authority has been doing its utmost to preserve the delivery of service to the population, with 41% of the budget addressed to health, education and social protection in 2016. The challenge will be to maintain this achievement in the years to come. The quality of the services provided is at stake, too. Delivery of quality education and health, as well as social inclusion, is high in the agenda of both the PA and the EU, as defined in the respective strategic policy documents, but this can only be achieved through continuous support to state building efforts and efficiency-oriented reforms.

Institutional capacity for implementing policy reforms

The proposed Action also plans to provide complementary support to PEGASE DFS for institution building and capacity development for policy reform under Pillar 1 - Governance Reform, Fiscal Consolidation and Policy Reform - and Pillar 2 - Rule of Law, Justice, Citizen Safety and Human Rights - of the European Joint Strategy in Support of Palestine 2017-2020. PA institutions require technical assistance to implement their policy reform agenda and sectoral strategies, building on previous EU-funded technical assistance. The limited budget allocated to

⁷. United Nations Development Assistance Framework State of Palestine 2018-2022.

⁸. WHO Occupied Palestinian Territory monthly reports, August 2017.

⁹. World Bank report to AHLC, September 2017.

MoSD does not allow the Ministry to pursue its reform of rolling out social services to specific marginalised groups. In addition, there is a need to develop the public administration staff payroll system to enhance its efficiency and reliability, especially in terms of control and audit.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Worsening of the Palestinian Authority fiscal situation	H	Tight budget monitoring Support to Public Finance Management reforms, including fiscal consolidation and Domestic Revenues Mobilisation measures Enhanced policy dialogue around fiscal leakages and Paris Protocol issues
Weak PA co-operation	M	Regular policy dialogue
Insufficient capacity of the PA to implement the reforms causing delays	M	Regular guidance through policy dialogue and support; incentives/conditionalities based allocations for CSP component
Failure of the reconciliation process	H	Diplomatic engagement with those critical of the deal focusing on stabilising Gaza over the medium- to long-term and financial support in key sectors such as civil service reform, water and energy and private sector development.
Assumptions		
<ul style="list-style-type: none"> • The two-State solution remains the political aim supported by international peace building initiatives; • No further significant deterioration of the current political and security context; • The Palestinian Authority continues to be committed to its statehood agenda and the reconciliation process; • The Palestinian Authority remains committed to implementing the NPA strategy and related sector reforms; • Human resources and technical capacity to implement reforms are available; • The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions. 		

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Through PEGASE DFS, the EU has been contributing substantially to the recurrent expenditures of the Palestinian national budget (over EUR 2.3 billion spent since 2008). PEGASE has provided systematic, predictable and unconditional contributions to the payment of salaries/pensions of civil servants employed by the PA, social allowances to the Palestinians living in poverty and medical referral costs to the six East Jerusalem Hospitals and thereby contributed to maintain the functioning of the Palestinian administration and the delivery of essential services.

In December 2016, the European Court of Auditors (ECA) issued a follow up on the status of recommendations delivered in the framework of its Special Report No. 14 from 2013 "*EU direct financial support to the Palestinian Authority*".¹⁰ All recommendations are to date fully implemented (funding of salaries and pensions for civil servants in Gaza was discontinued since beginning of 2017), with two partial exceptions, notably engagement with Israel through triangulation and application of a mechanism of incentive or conditionality to PEGASE. The latter is currently being addressed in this Action Document as detailed in paragraph 5.3 below.

Furthermore, PEGASE evaluations carried out during the period 2008-2015 highlighted the flexibility in planning and implementation and the use of well-proven management systems while continuously updating the programme. In particular, the latest evaluation, covering the period 2014-2015, considered that the PEGASE DFS was an "appropriate, efficient and effective modality to support the Palestinian Authority towards a Two-State Solution."¹¹ PEGASE DFS contribution was found to be appropriate in supporting the PA in the provision of quality public services to the Palestinian population. At the same time, "there are some elements within PEGASE DFS that would be better addressed through policy dialogue, such as the progression of the wage bill."¹² The financial contribution to social allowances through the CTP provided 'extreme poor' families with basic means for decent standard of living. According to the World Bank, it has reduced poverty significantly 'as simulations made in 2011 show that poverty rate would have been 11% points higher in the absence of these programmes.'¹³ However, a report by OXFAM pointed out that, in Gaza, 'national safety net payments reach only 450,000 people (out of 740,000 living in deep poverty) and even then are too low to meet basic needs.'¹⁴ Finally, the payment of the costs of referral to the East Jerusalem Hospitals ensured access to quality healthcare by the Palestinian population. With proper technical assistance, the MoH was able to improve, to a large extent, the efficiency in managing outside medical referrals. Remaining challenges to further improve the efficiency and appropriateness of referrals include: finalising a national price list by Diagnosis Related Groups; developing the MoH capacities in terms of monitoring the adherence to MoUs and protocols; and adopting a health insurance scheme reform that supports a more regulated environment and process.

In 2015, a Results-Oriented Framework (ROF) for PEGASE DFS support, covering policy reforms and service delivery, was introduced to co-ordinate donor support, technical assistance and policy dialogue. This was a first preparatory step towards linking future disbursements with

¹⁰. Clearing letter – Follow-up of the Court's recommendations made in its Special Report 14/2013 on EU direct financial support to the PA – Reference PF 8267, 13 December 2016.

¹¹. Final Report "Evaluation of the PEGASE Programmes of Direct Financial Support to the Palestinian Authority and Results Oriented Framework in the period 2014 – 2015", page ii, December 2016.

¹². Idem as above, page 25.

¹³. World Bank, Assistance Strategy 2015-2016 for the West Bank and Gaza, 8 October 2014.

¹⁴. OXFAM, *Left behind in Gaza*, November 2016.

monitoring requirements. This proposed Action goes a step forward and includes an incentive tranche linking disbursements to achievements of agreed indicators for the CSP component.

3.2 Complementarity, synergy and donor co-ordination

PEGASE DFS has been coupled with complementary capacity building measures to develop capacities in related sectors and promote reforms in selected areas, e.g. improvement of Public Financial Management and development of social protection services. EU Member States provide complementary support in the fields of education and health, based on the EU/MS division of labour in Palestine as well as other donors or UN organisations (USAID, UNICEF, WFP, ILO, WHO, etc.). The Palestinian Reform Development Plan-Trust Fund (PRDP-TF), with which PEGASE DFS has synergies, is managed by the World Bank and funded by France, Norway, Australia and Kuwait. It conditions the release of funds to the implementation of key reforms for improving the Palestinian Authority's fiscal sustainability, public financial management and accountability. Since 2008, PRDP-TF has disbursed USD 1.4 billion to the Palestinian Authority

Following recommendations by the European Court of Auditors in 2013 and the July 2014 external evaluation of the EU co-operation with Palestine, the EU and the Palestinian Authority designed a Results- Oriented Framework (ROF) to shift PEGASE DFS towards a 'results-oriented approach' aiming to guide/formalise a more structured, coherent results-oriented policy dialogue, with stronger monitoring and evaluation of PA's achievements in key areas. The 2015-2016 Pilot ROF covered six sectors under the umbrella of two pillars: (1) Fiscal consolidation and policy reforms with (a) Macro-economic support/Fiscal outlook – led by the EU, (b) Public Financial Management (PFM) – led by the EU, (c) Public Administrative Reform (PAR) led by the United Kingdom, and (2) Service Delivery with (a) Education – led by Belgium, (b) Health – led by Italy, (c) Social Protection – led by the EU. The EU lead donors conducted sector-level quarterly meetings with their relevant counterparts to follow-up on latest developments and progress toward agreed targets. Twice a year, the Head of Co-operation at the EU Delegation, i.e. the Office of the EU Representative (EUREP) and the Prime Minister's Office (Head, Policy Priorities and Reform Unit) co-chaired high level policy dialogue meetings where progress and challenges on the ROF were discussed.

Locally, Development Partners and PA co-ordination is managed through the Local Aid Co-ordination Secretariat (LACS) led by the Prime Minister's Office. It was restructured in 2017 to ensure Palestinian ownership, while maintaining strong donor engagement and to reflect the priorities of the National Policy Agenda (NPA). This should reinforce the policy dialogue role which often remained a forum of exchange of information rather than a decision-making mechanism. The EU plays a leading role in these structures at all levels. Relevant platforms include: (i) the Fiscal Working Group (chair: the Ministry of Finance; deputy chair: the International Monetary Fund); (ii) the Public Administration and Civil Service Sector Working Group (chair: the Ministry of Finance; deputy chair: the UK¹⁵); (iii) the Social Protection Sector Working Group (chair: the Ministry of Social Development; deputy chair: the EU); (iv) the sub-group on Health Referrals under the Health Sector Working Group; Energy sector working group; and regular co-ordination meetings with the PCBS.

Finally, EUREP leads the local European Development Partner co-ordination under the framework of the EU Heads of Co-operation meetings, which take place twice a month.

¹⁵. To note that this group did not convene since 2013.

Under those co-operation frameworks, the EU will ensure effective liaison and co-ordination with EU Member States and other donor-funded projects.

It is noteworthy to mention the growing attractiveness of PEGASE DFS among Member States, and others, as an instrument through which to channel donor contributions to the Palestinian Authority in different sectors (health, education, social protection and justice), which appears to be reinforcing a joint approach to aid effectiveness.

4. DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The overall objective of this Action is to build effective and accountable institutions ready for statehood and enable inclusive social development (leaving no-one behind).

The specific objective is improved public services responding to citizens' needs, including those of marginalised groups.

The **Expected Results** are:

- Result 1. Selected institutions deliver efficient and needs based services.
- Result 2. Timely and regular payment of salaries and pensions are made by the PA.
- Result 3. Timely and regular payments of social allowances are made by the PA.
- Result 4. People in need of medical referrals have access to East Jerusalem Hospitals.

Activities are broken down into components reflecting the above-mentioned results.

Component 1 – Reflecting result 1 "Selected institutions deliver efficient and needs based services" - (indicative allocation: EUR 16 200 000- EUR 6 000 000 for 2018, EUR 4 200 000 for 2019 and EUR 6 000 000 for 2020).

The proposed component will focus on supporting key reforms in the area of public administration and good governance in the public sector and aims at: (i) improving the civil service legislation; (ii) supporting the implementation of the civil service strategy in line with the public administration framework for ENP countries; and (iii) supporting the unification of the Palestinian public administration.

The underlying logic of this component is to improve the capacities of the counterparts benefiting from the direct financial support provided through the other three components in order to maximise impact. It will focus on institution capacity building and better effectiveness in reforms implementation.

Component 1 shall include 5 sub-components:

Sub-component 1.1. Reinforcement of the administrative capacity of the Palestinian Authority through ad-hoc technical assistance for the implementation of the priorities agreed within the ENP Action Plan of 2013 and the European Joint Strategy in Support of Palestine 2017-2020 (Pillar 1 and Pillar 3), in particular in the area of fiscal consolidation, public finance management (strengthening the integrity, transparency and accountability of public funds management) and public administration. Fiscal consolidation will also address policy and political dialogue between the PA/PLO and the Government of Israel (GoI) for the preservation of the Oslo framework, including its economic and fiscal components, and will support dialogue between the parties through the Office of the Quartet (OoQ) with a view to further reducing fiscal leakages and improving clarity in and transparency of the deductions made by GoI from clearance revenues

collected on behalf of PA. Options to update the 1994 Paris Protocol on Economic Relations between the GoI and the PLO to the mutual and fair benefit of the parties may also be explored.

Sub-component 1.2. Institutional capacity building of the Ministry of Social Development. Following an institutional capacity assessment of the Ministry, further support to the Ministry will be provided to improve the monitoring and evaluation of the implementation of the social development strategy and reforms related to the social protection floors and systems.

Sub-component 1.3. Assessment of the PA's payroll payment systems at the level of Ministry of Finance, General Personnel Council and Pension Authority - possibly with IT systems development.

Sub-component 1.4. Support to reforms carried out by the MoSD for the implementation of social protection floors and systems.

Sub-component 1.5. Reinforcement of the administrative capacity of the Palestinian Authority through partnership co-operation between Palestinian public administrations and those of EU Member States for the implementation of the priorities agreed within the ENP Action Plan of 2013 and the European Joint Strategy in Support of Palestine 2017-2020 (all pillars).

Component 2 – Reflecting result 2 “Timely and regular payment of salaries and pensions are made by the PA” – support to Civil Servants and Pensioners (CSP)- (indicative allocation: EUR 255 000 000 - EUR 85 000 000for 2018, EUR 85 000 000for 2019, and EUR 85 000 000for 2020):

The annual allocation of EUR 85 000 000 will be disbursed according to a timetable to be agreed upon with the PA and taking into consideration the results of the incentive tranche indicators (see section 5.3.2 for more details). There will be about 5-6 payments per year to contribute to the salaries and pensions of around 58,000 PA civil servants and pensioners. The number of beneficiaries may change as a result of the Global Assessment of the soundness, reliability and completeness of the payroll system, or in case the eligibility criteria are modified, or in light of relevant political developments. This activity aims to support the Palestinian Authority to maintain the functioning of the administration effectively under its control and thus deliver to the Palestinian population essential public services, including in the health, social protection, education and justice sectors.

Component 3 – Reflecting Result 3 "Timely and regular payments of social allowances are made by the PA." – support to the Cash Transfer Programme (CTP) - (indicative allocation: EUR 145 000 000– EUR 50 000 000for 2018, EUR 50 000 000for 2019 and EUR 45 000 000for 2020):

PEGASE will contribute to quarterly CTP payments to an average of 70,000 families (80% of which in Gaza). The number of beneficiaries may change as a result of the Global Assessment of the soundness and reliability of the CTP database, in case the eligibility criteria are modified, or in light of relevant political developments. For 2018, out of EUR 50 000 000, EUR 10 000 000will be earmarked for Gaza, following the discontinuation of CSP in Gaza as of January 2017 and reallocation of funds to CTP and productive investment interventions. Considering the deteriorating socio-economic situation and worsening poverty in Gaza, for 2019, another EUR 10 000 000are foreseen as earmarked cash injection to the poorest families in Gaza targeting an additional 10,000 families currently on the CTP waiting list, most of them with refugee status. In 2020, recognising the role of CTP as the most reliable, predictable and scalable tool to mitigate the COVID-19 crisis and to protect the most vulnerable population, as well as to ensure sufficient fiscal space for social protection spending in Palestine, it was therefore agreed to secure the payment of social allowances by providing an additional EUR 5 000 000 through PEGASE at the request of the PA. This activity aims to ensure the continued assistance to Palestinian families living in extreme poverty, who are dependent on additional financial aid from the Palestinian

Authority. It also reinforces the reform of the social protection system and the social cohesion among Palestinians.

Component 4 – Reflecting Result 4 "People in need of medical referrals have access to East Jerusalem Hospitals." – support to the East Jerusalem Hospitals (EJH) - (indicative allocation: EUR 48 500 000– EUR 13 000 000for 2018, EUR 13 000 000 for 2019 and EUR 22 500 000 million for 2020):

The six EJH provide a quality range of tertiary healthcare, most of which is not available elsewhere in Palestine. The hospitals also serve as leading teaching and training institutions, and in crisis situations are the main providers of emergency services. The six EJH are the largest remaining Palestinian-run institutions in East Jerusalem. The financial difficulties of the Palestinian Authority have resulted in a situation where numerous hospital bills underwritten by the Ministry of Health for referrals to the EJH, and validated by the Ministry of Finance, remain unpaid, generating arrears despite ongoing reforms. This activity aims to ensure access to quality health services to the entire Palestinian population by covering part of the arrears for referrals. The PA is facing significant challenges in managing the COVID-19 outbreak due to the existing fiscal crisis and the fragile health system that lacks the medical resources and capacities needed to manage the outbreak. It was therefore agreed to top up the PEGASE EJH by EUR 9.5 million to be urgently disbursed to the East Jerusalem hospitals. It will allow the PA to create fiscal space to implement the most critical and urgent actions to manage COVID-19 crisis and will ease the existing cash flow crisis faced by hospitals to allow them to respond to COVID-19 outbreak in East Jerusalem. In addition, it up will support the PA's efforts to maintain robust public health response focused on three strategies, 1) stop the spread, 2) communicate clearly to the Palestinian people, and 3) build resilience of the Palestinian health care system. It will support sustainable provision of tertiary care services and will allow for managing COVID 19 prevention and treatment at hospitals level, while complementing the PA's efforts to make available essential equipment and protective supplies to equip the tracing teams, testing labs and quarantine centers needed to combat COVID 19. The top-up is based on a request of the PA, in line with the Plan developed to fight COVID-19, which is co-ordinated with the UN Humanitarian Country Team. This support was also co-ordinated as part of the Team Europe response to the COVID-19 crisis.

Safeguarding measures: audit, verification, monitoring, evaluation, screening and IT support of PEGASE DFS programmes (Indicative allocation: EUR 2 850 000 million – EUR 1 050 000 million for 2018, EUR 1 250 000 million for 2019 and EUR 550 000 million for 2020).

High standards of control are achieved through audit, verification, control, monitoring, evaluation, screening and IT systems governing all PEGASE DFS programmes mentioned above. These systems are implemented under the continuous overview of independent auditors and/or contractors. Ex-ante verifications for PEGASE eligible beneficiaries and/or invoices are performed before every disbursement on the basis of eligibility criteria defined by the EU. Ex-post activities include confirming that the funds have been duly disbursed to the eligible beneficiaries. Moreover, to ensure verification of each recipient of funds, and in order to avert any risk of misuse of funds, all PEGASE beneficiaries are encoded in PEGASE IT system and screened against international sanctions lists and other ad-hoc lists through specialised software.

Results-based monitoring and reporting for policy dialogue (Indicative allocation: EUR 700 000)
PEGASE DFS can be used as leverage for policy reforms and policy dialogue under the EJS Results Oriented Framework (ROF) 2018-2020. In order to support European Development Partners (EDPs) capacity to have a stronger evidence-based analysis for policy dialogue with the PA and better decision-making (planning and programming), it is proposed to have technical assistance to assist in policy analysis, ROF monitoring and reporting. This will feed into evaluation and learning processes and EDPs-PA mutual accountability commitments (See also

section 5.7). This would include selected ROF sectors' data collection and analysis, policy analysis and EDP co-ordination. The support would concentrate, but not exclusively, on PEGASE DFS related sectors and mainstreaming themes.

Visibility of PEGASE DFS programmes (Indicative allocation: EUR 300 000 for 2019). Visibility and outreach activities related to the PEGASE DFS mechanism will be organised, notably with respect to the CTP programme.

4.2 Intervention logic

By ensuring systematic and predictable contributions to the Palestinian Authority's recurrent expenditures through the PEGASE DFS mechanism, the EU is making a key contribution towards underpinning the financial sustainability of the PA itself and of many Palestinian institutions and private sector actors that financially depend on it. In doing so - within a context of diminishing budget support from donors, as repeatedly pointed at by the IMF and WB reports - the EU significantly contributes to maintaining the viability of the two-State solution and the PA's state-building activities, notably in terms of social service delivery. The Direct Financial Support mechanism also contributes to social cohesion and economic and security stabilisation of Palestine and helps the PA to implement policy reforms in public finance management and public administration, as well as in the social development sector. The institution building and capacity development component will ensure progress in implementation of the policy reform agenda, necessary to reach statehood and enable inclusive social development (leaving no-one behind).

4.3 Mainstreaming

Good governance principles are applied to the implementation mechanism and ownership on the part of the Palestinian Authority is assured. The EU also supports complementary capacity building activities focusing notably on strengthening the public finance system, including 'checks and balances' aspects, and enhancing the Palestinian public administration in line with the public administration framework for Neighbourhood countries. Supporting the Palestinian Central Bureau of Statistics as a crucial institution aims to ensure a sound monitoring and evaluation of the reforms and overall macroeconomic and social outlook, and therefore enhance the principles of transparency and accountability for public sector governance.

Youth: the actions proposed provide services which are vital to the social and economic rights of the Palestinian population as a whole but which will have indirect impact on youth, in terms of providing an alternative to violence and radicalisation. Youth-related statistics that can help monitor the fulfilment of the youth economic and social rights will be provided by the PCBS.

Gender equality: the upholding of key social services such as education and health will be critical to cater to women's –as well as men's – basic needs. Of the funds disbursed in 2016 within the CSP component, 41.3% of beneficiaries were women. Under the CTP programme, 41% of the households are female-headed (source MoSD). Gender disaggregated data will be ensured in the national statistics published by the PCBS.

Civil society: According to the 'Mapping Study of Civil Society in Palestine - Update 2015', the improvement of public service delivery is an area in which CSO engagement in governance and policy dialogue is possible. A strong collaboration already exists in education, health and services for people with “special needs”. MoSD is developing a partnership approach with private social service providers (NGO and private sector) to provide and plan improved social protection services for most vulnerable groups. Relevant statistics will be collected by the PCBS.

4.4 Contribution to Sustainable Development Goals (SDGs)

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels, but also promotes progress towards SDG 1 - End poverty in all its forms everywhere; SDG 3 - Ensure healthy lives and promote well-being for all at all ages; and SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities (as described in section 4.1) will be carried out and the corresponding contracts and agreements implemented, is 84 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 Decision and the relevant contracts and agreements.

5.3 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 measures¹⁶.

5.3.1 Direct management

Direct management will be applied for all PEGASE Direct Financial Support programmes (components 2, 3 and 4). 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 will be made by the Commission through specific sub-accounts of the Palestinian Authority's Single-Treasury Account, as detailed in Section 4.1 above, following eligibility checks and verification as well as control procedures by external experts and international audit firms.

Direct management will be also applied for Sub-component 1.2 Institutional capacity building of the Ministry of Social Development, for the design of a monitoring and evaluation system.

¹⁶ 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.

5.3.2 Criteria and indicative schedule of disbursement of the Implementation of Direct Financial Support to Civil Servants and Pensioners (CSP) – component subject to conditionality

Based on the recommendation in the above-mentioned Special Report by the European Court of Auditors, component 2 (CSP) intends to gradually shift from previous unconditional support to linking part of the disbursements to the achievement of certain benchmarks agreed with the Palestinian Authority in the framework of PA-led reforms.

The amount subject to the incentives under the CSP component (Component 2) is EUR 20 000 000 out of a total of EUR 85 000 000 for 2018; EUR 20 000 000 out of a total of EUR 85 000 000 for 2019; and EUR 20 000 000 out of a total of EUR 85 000 000 for 2020. EUR 65 000 000 per year are disbursed without conditions, based on the request of the Ministry of Finance, and once the ex-ante screening is made on the list of beneficiaries.

The specific conditions that may be used for the incentive-based tranches will be the achievements of established benchmarks in the following indicative areas:

- Budget transparency (budget preparation, monitoring and reporting);
- Public procurement transparency;
- Public administration reform, including Payroll control and replacement of the current payroll system with a more modernised and effective system;
- Effectiveness of control process.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme and will be detailed in the corresponding Financing agreements. However, in duly justified circumstances, the MoF may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

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

Tranches (EUR million /Years) ¹⁷	2018	2019	2020	Total
Regular Payment Tranche	65	65	65	195
Incentive-Based Tranche	20	20	20	60
Total	85	85	85	255

5.3.3 Grants: Twinning projects (direct management)

(a) Purposes of the grants

Twinning projects will contribute to the achievement of sub-component 1.5 under Component 1 – Reflecting result 1 "Selected institutions deliver efficient and needs based services" (section 4.1 above).

The purpose of the grants is the reinforcement of the administrative capacity of respective institutions benefiting from Twinning support through partnership co-operation between

¹⁷. The annual timetable of the tranches will be agreed upon with the PA every year. There will be 3-4 fixed tranches and 1 variable tranche every year. The variable tranche will be last tranche of the year.

Palestinian public administrations and those of EU Member States. Twinning projects will be implemented in accordance with the applicable Twinning Manual.

(b) Type of applicants targeted

In line with Article 4(10)b of Regulation (EU) No 236/2014, participation in Twinning calls for proposals is limited to public administrations of EU Member States being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

5.3.4 Indirect management with International Labour Organisation (ILO)

The sub-component 1.4 of the PEGASE Action under Component 1 – Reflecting result 1 "Selected institutions deliver efficient and needs based services" may be implemented in indirect management with ILO.

ILO was selected by the Commission's services using the following criteria:

- i) social protection floors and systems is one of the core mandates of the International Labour Organization as set out in its two-dimensional strategy conclusions adopted by the 100th Session of the International Labour Conference (ILC) in 2011 as well as in the Social Protection Floors Recommendation, 2012 (No. 202) adopted by the 101st Session of the ILC in 2012;
- ii) ILO carried out a Social Protection Floor assessment in 2019 to assist the MoSD in prioritising investments in the sector and is the best positioned Organisation to support the Ministry in its reforms;
- iii) the local presence, with a strong technical expertise and good ongoing co-operation with the authorities and the partners within the relevant sector working groups.

The implementation by this entity entails technical assistance to support reforms carried out by the MoSD for the implementation of social protection floors and systems.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria.

5.3.5 Indirect management with United Nations Office for Project Services - UNOPS (Support to policy dialogue through the Office of the Quartet under Sub-component 1.1)

The sub-component 1.1 under Component 1 – Reflecting result 1 "Selected institutions deliver efficient and needs based services" may be implemented in indirect management with UNOPS to support the Office of the Quartet (OoQ).

UNOPS was selected by the Commission's services using the following criteria:

- i) the on-going UNOPS support to the OoQ's mediation role between Israel and the PA on fiscal leakages files;;;
- ii) the UNOPS local presence, with a strong technical expertise and good ongoing co-operation with the authorities and the partners in the sector.

The implementation by this entity entails facilitation of exchanges between the PA/PLO and the GoI to enhance the policy and political dialogue between the two parties around fiscal leakages and Paris Protocol matters that would support the economic component of the Oslo framework to the mutual and fair benefits of the parties. It will be done through a Delegation Agreement with UNOPS.

In case the envisaged entity would need to be replaced, the Commission's services may select another replacement entity using the same criteria.

5.3.6 Indirect management with the Organisation for Economic Co-operation and Development (OECD)

The sub-component 1.1 under Component 1 – Reflecting result 1 "Selected institutions deliver efficient and needs based services" may be implemented in indirect management with OECD for public administration reforms.

The envisaged entity has been selected using the following criteria: its specific knowledge and expertise in strengthening public governance through designing and implementing evidence-based and innovative public policies that help governments deliver on their commitments to citizens.

The implementation of public administration reform through the OECD will allow the Palestinian Government to benefit from its specific knowledge and expertise. Moreover, OECD implements the regional SIGMA programme funded by the EU, which has elaborated the principles of Public Administration Reform, and which will be a key dimension of the work to be done.

In addition, the OECD is best placed to provide short-term guidance to the Government for adapting its public administration to handle the emergency situation resulting from the coronavirus pandemic. Beyond this immediate assistance, the OECD has specific knowledge and expertise to work with the Palestinian Government on the longer consequences of the crisis through formulating co-ordinated recovery policy responses in the areas of public administration reform. This includes policy development and co-ordination at centre-of-government level, civil service and human resource management, accountability, service provision and supporting the public sector digital transformation efforts. This will play a key role in changing the relations within the administration and with the citizens and enterprises, improving the efficiency, modernisation and transparency of public administration, while ensuring social distance.

This implementation entails the reinforcement of the administrative capacity of the Palestinian Authority through public administration reform under sub-component 1.1.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria.

5.3.7 Indirect management with the Partner Country

A part of this action with the objective as related to Result 1 'Selected institutions deliver efficient and needs based services', Subcomponent 1.3 may be implemented in indirect management with the Partner Country, i.e. the Palestinian Authority, according to the following modalities:

The partner country will act as the contracting authority for the procurement and grant procedures. The Commission will control ex ante all the procurement and grant procedures.

The partner country should develop the staff payroll system of its own public administration to enhance the system's efficiency and reliability, especially in terms of control and audit on the basis of an Action Plan and Technical specifications defining in particular the access rights, scope and deliverables' requirements, as well as compatibility with the other relevant systems (such as General Personnel Council (GPC) and Pension Authority databases).

Payments are executed by the Commission.

The partner country shall apply the Commission's rules on procurement and grants. These rules will be laid down in the financing agreement to be concluded with the partner country.

5.3.8 Changes from indirect to direct management mode due to exceptional circumstances

If the action to be implemented by ILO (sub-component 1.4 'Support to reforms carried out by the MoSD for the implementation of social protection floors and systems', see section 5.3.4) cannot

be implemented under indirect management due to reasons outside the control of the Commission, it is proposed to implement it under direct management through a procurement to support the reforms carried out by the MoSD for the implementation of social protection floors and systems.

If the action to be implemented by OECD (sub-component 1.1 to support public administration reforms, see section 5.3.4) cannot be implemented under indirect management due to reasons outside the control of the Commission, it is proposed to implement it under direct management through a direct grant award to OECD.

5.4 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 in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution 2018 (EUR)	EU contribution 2019 (EUR)	EU contribution 2020 (EUR)	Total EU contribution (EUR)	Indicative third party contribution (EUR)
5.5.1 – Result 1: Selected institutions deliver efficient and needs based services, composed of	6,000,000	4,200,000	6,000,000	16,200,000	N/A
5.5.1.1 – Indirect management with OECD - Public Administration Reform (PMO, CS, GPC and other public institutions)	1,500,000	500,000	500,000	2,500,000	
5.5.1.2 Indirect management with UNOPS (OoQ)			1,000,000	1,000,000	
5.5.1.3 – Procurement (direct management) - Institution building of MoSD		1,200,000		1,200,000	
5.5.1.4 – Indirect management with the PA - Development of the MoF payroll	500,000			500,000	
5.5.1.5 – Indirect management with ILO	1,500,000			1,500,000	

5.5.1.6 – Call for proposals / Grants 'Twinning support to selected institutions' (direct management)	2,500,000	2,500,000	4,500,000	9,500,000	
5.5.2 – Result 2: Supporting Palestinian administration and services (CSP), composed of	85,000,000	85,000,000	85,000,000	255,000,000	N/A
5.5.2.1 – Procurement (direct management) – Direct Financial Support	85,000,000	85,000,000	85,000,000	255,000,000	
5.5.3 – Result 3: Supporting the Palestinian Cash Transfer Programme (CTP), composed of	50,000,000	50,000,000	45,000,000	145,000,000	N/A
5.5.3.1 – Procurement (direct management) – Direct Financial Support	50,000,000	50,000,000	45,000,000	145,000,000	
5.5.4 – Result 4: Support to East Jerusalem hospitals (EJH), composed of	13,000,000	13,000,000	22,500,000	48,500,000	N/A
5.5.4.1 – Procurement (direct management) – Direct Financial Support	13,000,000	13,000,000	22,500,000	48,500,000	
5.5.5 - Safeguarding activities, composed of	1,050,000	1,250,000	550,000	2,850,000	N/A
5.5.5.1 - Evaluation		100,000	100,000	200,000	
5.5.5.2 – Ex post/ex ante audit, financial audit, sanctions screening, IT development,	1,050,000	1,150,000	450,000	2,650,000	
5.5.6 - Procurement (direct management) – Results-based monitoring and reporting for policy dialogue	0	700,000	0	700,000	N/A
5.5.7 - Communication and visibility, composed of	0	300,000	0	300,000	N/A
5.5.7.1 – Communication and visibility		300,000		300,000	
Totals	155,050,000	154,450,000	159,050,000	468,550,000	N/A

5.6 Organisational set-up and responsibilities

On the Palestinian Authority side, the leading partners in the implementation of the PEGASE DFS programme will be the Ministry of Finance in the execution of the payments to final beneficiaries, the Ministry of Social Development (Result 3) and the Ministry of Health (Result 4).

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.

Financial experts and qualified auditors will work for the project and will be complemented by other experts as required, in particular in the fields of IT and screening against international sanctions.

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 incentive-based tranche indicators.

5.7 Performance monitoring and reporting

A comprehensive system of monitoring, control and audit will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide assurance over the use of funds, and the efficient and effective provision of support to the Palestinian Authority and population while fully protecting donor interests.

As from early 2013, the EU started working towards a Results-Oriented Framework (ROF) for PEGASE DFS covering both Policy Reforms and Service Delivery, under which EU donors would further co-ordinate the support (in terms of funding, technical assistance and policy dialogue). A pilot ROF and its performance monitoring and reporting set-up were adopted for the years 2015 (as of second quarter)-2016, with a quarterly (internal) and yearly (shared with the Palestinian Authority) operational reporting system building on internal and external reviews. The process was paralleled with the development of the *European Joint Strategy in Support of Palestine 2017-2020* (EJS) in 2016.

As detailed in 1.1.1 above, the EJS seeks close alignment to the new Palestinian National Policy Agenda (NPA), which covers national priorities, policies and interventions for the period 2017-2022. With the aim to foster alignment between their respective agendas but also to further develop result/performance-based approach to development, the PA and EDPs agreed to extend the Results-Oriented Framework for 2018-2020 to all five pillars of the EJS. Particular attention is being paid to enhancing monitoring and evaluation, and continuing strengthening the reforms-oriented policy dialogue.

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

It should also be noted that some data to measure progress in the achievements related to the Sustainable Development Goals are still not available with certain PA institutions. The capacity development interventions funded through this action will enable the latter to gather data so as to track progress.

5.8 Evaluation

One mid-term evaluation will be carried out for the DFS components via independent consultants during the period concerned. The focus of the evaluation will be on the assessment of achievements, the quality and the results of Actions in the context of an evolving co-operation policy with an increasing emphasis on result-oriented approaches. The evaluation should provide an understanding of the cause and effects links between inputs and activities, and outputs, outcomes and impacts. The evaluation will serve accountability, decision making, learning and management purposes.

The main users of this evaluation will be the partner country, relevant services of the European Union, the interested stakeholders and the wider public. 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.

Additional mid-term evaluations may be carried out, as relevant, for the result 1 component.

The evaluation reports shall be shared with the partner country and other key stakeholders, notably contributing donors. 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.

5.9 Audit

Financial experts and qualified auditors will be involved in the implementation of PEGASE DFS programmes.

Advanced monitoring, control and audit systems are set up for all of PEGASE DFS programmes. All donors contributing to PEGASE DFS programmes have full access to the corresponding monitoring and audit reports on the basis of which their contributions are disbursed.

In addition to the regular verifications and audits of eligible expenditures to identify and validate payments, annual ex-post audits of PEGASE DFS programmes will be undertaken in accordance with international standards, to provide the maximum level of assurance which will be partly contracted from other decisions related to the PEGASE DFS activities. Contributing donors will be invited to participate. Contributing donors may also carry out ex-post audits of expenditures covered by their payments.

Indicatively, a contract for one financial audit shall be concluded under a framework contract in 2020. The financing of the other financial audits shall be covered by another financing Decision.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that one Service contract will be signed for visibility and communication.

Progress of implementation will be communicated regularly to all stakeholders through mid-and end-year financial and operational reports. Regular meetings are held with EU Member States in Brussels as well as locally.

6. PRE-CONDITIONS

None.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) ¹⁸

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing Decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	O.O.: Build effective and accountable institutions ready for statehood and enable inclusive social development (leaving no-one behind).	1. Proportion of total government spending on essential services (education, health and social protection)[SDG 16.6.1]	1. 41% (2016)	1. Maintaining the baseline throughout 2018-20	1. MoF Annual Report; SDG Reports	
		2. Proportion of government recurrent and capital spending to sectors that disproportionately benefit women, the poor and vulnerable groups [SDG 1.b.1]	2. Recurrent: 11.14%; Capital: 0.14% (2016)	2. Recurrent: 11.14%; Capital: 0.42% (2020)	2. MoF Annual Report	
		3. Proportion of population living below the national poverty line, by sex and age [SDG	3. 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%	3. Next PECS in 2022	3. PCBS PECS Report (multi-dimensional poverty assessment)	
				4. 17.89 (2020)		

¹⁸. Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

		1.2.1]	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%		4. Worldwide Governance Index	
		4. Average Voice and Accountability score**	4. 16.26 (2016)			
Specific objective: Outcome	S.O.: Improved public services responding to citizens' needs, including those of marginalised groups.	1.1 Number of families in deep poverty receiving social allowances under the Cash Transfer Programme (in West Bank and Gaza). [ROF on social protection - outcome 1 indicator]	1.1 2017: 60% of total deep poor families targeted: Out of 110,701* families registered in CTP database 94,166 with deep poverty scores (6.3939 score with the proxy-means-testing) while total number of deep poor families are 158,000 (PCBS 2017). * 45,851 female-headed, 19,588 families headed by People with Disabilities, 33,370 elderly-headed households 72,287 in Gaza, 38,414 in West Bank	1.1 2018: 72% of total deep poor families targeted. 108,844 families* registered in 2018 on the CTP 92,570 with deep poverty scores while total number of deep poor families are 127,048 (PCBS 2017). * 45,400 female-headed households, 19,000 households headed by People with Disabilities, 35,000 elderly-headed households 71,659 in Gaza, 37,185 in West Bank	1.1 PCBS report, CTP database	The Government of Israel respects its Oslo/Paris agreements' commitments, notably in terms of transfer of clearance revenues, and does not impose further restrictions under the occupation

		<p>2.1 Citizen degree of satisfaction of public service</p> <p>3.1 % of patients actually referred out of those in need (average of 102,000 per year – source UNCT common country analysis)</p> <p>4.1 Number and actual cost of medical referrals to Israeli hospitals from West Bank and Gaza (disaggregated by cause) *</p> <p>5.1 Public access to fiscal information</p>	<p>2.1 Data to be shared by the Cabinet by end 2018</p> <p>3.1. 90.12% (91927 patients referred in 2016)</p> <p>4.1 13,119 referrals; 233.9 M NIS (2016)</p> <p>5.1 Score B under PEFA 2013</p>	<p>2.1 Targets to be set by end 2018</p> <p>3.1 Maintaining the baseline throughout 2018-20</p> <p>4.1 20% reduction</p> <p>5.1 Score B or better in PEFA 2018</p>	<p>2.1 Cabinet reports</p> <p>3.1 MoH annual report</p> <p>4.1 MoH annual report</p> <p>5.1 PEFA 2018</p>	
Outputs	Output 1: Selected Institutions deliver efficient and needs based services.	<p>1.1.1 Improved social services for marginalised groups (PwD, children, women, elderly).</p> <p>1.1.2 Improved policy</p>	<p>1.1.1 Social Protection Floors and Systems reforms in place (TBC)</p> <p>1.1.2 Bilateral MoF-to-MoF discussions are not breaking</p>	<p>1.1.1 TBC</p> <p>1.1.2.1 Set of issues for discussion addressing PA</p>	<p>1.1.1 PCBS/MoSD/ILO reports/database</p> <p>1.1.2.1 Minutes of the meetings/</p>	Human resources and technical capacity to implement reforms are available

	<p>and political dialogue on economic matters, including fiscal leakages issues</p> <p>1.2.1 GPC: Number and type of bylaws prepared, endorsed and implemented</p> <p>1.2.2 Number of Human resources trained on the new legislation</p> <p>1.2.3 Number and type of Areas of Human Resource Management (HRM) improved according to excellence standards</p>	<p>the deadlock on key files.</p> <p>1.2.1 Developing the Secondary legislation, based on the new Civil Service Law</p> <p>1.2.2 No comprehensive training was provided on new legislation</p> <p>1.2.3.1 A 2017 Cabinet Decision for restructuring Public Institutions organisational structures. 57 Institutions will be restructured. 18 institutions were restructures within the past 7 years</p> <p>1.2.3.2.2 Lack of unified HRM system due to geographic fragmentation in the West Bank and Gaza Strip</p>	<p>fiscal crisis agreed</p> <p>1.1.3.2 Measures to unlock clearance revenues developed and agreed</p> <p>1.2.1 Modernised Secondary legislation. (2017-2022)</p> <p>1.2.2 Head of Legal & HRM Units at ministries and other public agencies trained (currently 75 institutions)</p> <p>1.2.3.1.1 Drafting the Standards and policies for developing the CS Public institutions' organisational structures (2018-2019)</p> <p>1.2.3.1.2 Restructuring the civil service sector public institutions (2019-2022)</p> <p>1.2.3.2 Unified Human Resources Management</p>	<p>Documented agreements</p> <p>1.1.3.2 Minutes of the meetings/ Documented agreements</p> <p>1.2.1 Official Gazette GPC, PM reports</p> <p>1.2.2 GPC, PM reports</p> <p>1.2.3 GPC reports, PM reports</p>	<p>Political buy-in and commitment on both sides to advance on economic and fiscal matters</p> <p>Approval and signature of the new civil service law</p> <p>Progress in the Palestinian internal reconciliation process</p>
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Outputs	Output 2: Timely and regular payment of salaries and pensions are made by the PA in the West Bank.	2.1.1 Number of payments made over the year by the PA 2.1.2 Regular global assessment of the payroll done 2.1.3.Ex-ante and ex-post control carried out	2.1.1. 12 (2016, including PEGASE DFS contribution) 2.1.2 0 (zero) 2.1.3. 0 (zero)	2.1.1. 12payments 2.1.2 approved and launched every 18 months 2.1.3. launched and approved prior and subsequent to every PEGASE contribution	2.1.1 Ministry of Finance (MoF) Statements; beneficiaries bank statements 2.1.2 Auditors' statements 2.1.3. Auditors' statements	
Outputs	Output 3: Timely and regular payments of social allowances are made by the PA.	3.1.1. Social allowances paid every quarter 3.1.2. Cash transfer Programme database updated regularly (recertification) 3.1.3. Ex-ante and ex-post control carried out	3.1.1 4 payments year 3.1.2. 11,713 (out of the annual target of 21,000) households re-certified in 2017 3.1.3. 0 (zero)	3.1.1. 4 payments a year 3.1.2. Annual target 21,000 3.1.3. launched and approved prior and subsequent to every PEGASE contribution	3.1.1. MoSD report, PEGASE report, MoF data 3.1.2. Audit reports, EU payment report 3.1.3. Auditors' statements	
Outputs	Output 4: People in need of medical referrals have access to East Jerusalem	4.1.1 EU Contribution to the PA referral costs to the 6 EJH paid annually	4.1.1. 2016 payment 4.1.2 (zero)	4.1.1. Three payments 4.1.2 Launched and approved prior and	4.1.1 MoH Statements; Hospitals records 4.1.2 Audit reports,	

	Hospitals.	4.1.2. Ex-ante and ex-post control carried out		subsequent to every PEGASE contribution	EU payment report	
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