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

**ANNEX I**

to the Commission Implementing Decision on the annual action plan in favour of Palestine<sup>1</sup> for 2023  
**Action Document for PEGASE:<sup>2</sup> Direct Financial Support to the Palestinian Authority 2023**

**ANNUAL ACTION PLAN**

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

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title</b> <b>OPSYs</b> <b>Basic Act</b>	PEGASE: Direct Financial Support to the Palestinian Authority 2023 Annual action plan in favour of Palestine for 2023 OPSYs business reference: NDICI-GEO-NEAR/2023/ACT-61736 ABAC Commitment level 1 number: JAD. 1283033 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
<b>2. Economic and Investment Plan (EIP)</b>	No
<b>EIP Flagship</b>	No
<b>3. Team Europe Initiative</b>	No
<b>4. Beneficiar(y)/(ies) of the action</b>	The action shall be carried out in Palestine
<b>5. Programming document</b>	European Joint Strategy in support of Palestine 2021-2024 <sup>3</sup> (EJS)
<b>6. 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>7. Priority Area(s), sectors</b>	DAC code 150 - Government and Civil Society DAC code 160 - Other Social Infrastructure and Services DAC code 120 - Health

<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> Mécanisme Palestino-Européen de Gestion et d'Aide Socio-Economique.

<sup>3</sup> Commission Implementing Decision C(2022) 8279 of 22/11/2022.

<b>8. Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 1- No poverty Other significant SDGs: SDG 3 - Good health and wellbeing SDG 5 - Gender equality SDG 16 - Peace, justice and strong institutions																																																				
<b>9. DAC code(s)</b>	15110 – Public sector policy and administrative management 50 % 16010 - Social protection 40 % 12191 - Medical services 10 %																																																				
<b>10. Main Delivery Channel</b>	Recipient Government – 12000																																																				
<b>11. Targets</b>	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Human Rights, Democracy and Governance																																																				
<b>12. Markers (from DAC form)</b>	<table border="1"> <thead> <tr> <th>General policy objective</th> <th>Not targeted</th> <th>Significant objective</th> <th>Principal objective</th> </tr> </thead> <tbody> <tr> <td>Participation development/good governance</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> </tr> <tr> <td>Aid to environment</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Gender equality and women's and girl's empowerment</td> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Reproductive, maternal, new-born and child health</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Disaster Risk Reduction</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Inclusion of persons with Disabilities</td> <td><input type="checkbox"/></td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Nutrition</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <th>RIO Convention markers</th> <th>Not targeted</th> <th>Significant objective</th> <th>Principal objective</th> </tr> <tr> <td>Biological diversity</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Combat desertification</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Climate change mitigation</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Climate change adaptation</td> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </tbody> </table>	General policy objective	Not targeted	Significant objective	Principal 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 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"/>	RIO Convention markers	Not targeted	Significant objective	Principal 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"/>
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Tags	YES	NO
transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>
energy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
environment, climate resilience	<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital	<input checked="" type="checkbox"/>	<input type="checkbox"/>
economic development (incl. private sector, trade and macroeconomic support)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
human development (incl. human capital and youth)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
health resilience	<input checked="" type="checkbox"/>	<input type="checkbox"/>
migration and mobility	<input type="checkbox"/>	<input checked="" type="checkbox"/>
agriculture, food security and rural development	<input type="checkbox"/>	<input checked="" type="checkbox"/>
rule of law, governance and public administration reform	<input checked="" type="checkbox"/>	<input type="checkbox"/>
other	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tags	YES	NO
digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital governance	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital entrepreneurship	<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital skills/literacy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital services	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tags	YES	NO
digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>
energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>
health	<input type="checkbox"/>	<input checked="" type="checkbox"/>
education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>

#### BUDGET INFORMATION

<b>14. Amounts concerned</b>	Budget line: 14.020110 Southern Neighbourhood Total estimated cost: EUR 123 400 000		
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	<p>Total amount of EU budget contribution EUR 118 400 000</p> <p>This action is co-financed in parallel by:</p> <ul style="list-style-type: none"> <li>- Italy for an amount of EUR 1 000 000;</li> <li>- Finland for an amount of EUR 2 000 000;</li> <li>- Spain for an amount of EUR 2 000 000.</li> </ul>
<b>MANAGEMENT AND IMPLEMENTATION</b>	
<b>15. Implementation modalities (management mode and delivery methods)</b>	<p><b>Direct management</b> through:</p> <ul style="list-style-type: none"> <li>- Grants</li> <li>- Twinning grants</li> <li>- PEGASE Direct Financial Support</li> <li>- Procurement</li> </ul> <p><b>Indirect management</b> with entities to be selected in accordance with the criteria set out in section 4.3.4</p>

## 1.2. Summary of the Action

Following the unprecedented terrorist attacks of Hamas against Israel on 7 October 2023, the escalation between Hamas and Israel in Gaza, has led to a further deterioration of the already fragile fiscal situation of the Palestinian Authority (PA).

The European Union is the biggest provider of external assistance to the Palestinians which amounts to indicatively EUR 1.177 billion for 2021-2024.<sup>4</sup> While the EU direct support currently represents only above 3% of the PA total revenue, the EU remains the largest international donor to the PA. Since 1999 the EU delivered 25.9% of foreign aid to Palestine, and over 30% since 2017. Together with the EU Member States, EU's total contribution to foreign aid to Palestine over that period has been well over 50%.<sup>5</sup>

The results of the review of EU funding for Palestine were adopted by the European Commission on 21 November 2023, concluding that the safeguards in place are efficient and no diversion of funding was detected.<sup>6</sup> Given the increased risks due to the current context, it was, however, decided to add some additional controls on budgetary implementation. On this basis, the EU is now continuing financial support for Palestine and is proposing to commit the available 2023 budget.

It is proposed to make a significant commitment to Palestine to lay the ground for economic and political stability of Gaza and the West Bank, including East Jerusalem and Area C, based on the two-state solution, while ensuring that in the short term the PA is funded as far as the EU contribution is concerned.

The commitment would consist of:

- A short-term package, providing the 2023 EU contribution to the PEGASE system, of a value of EUR 118.4 million, thus covering all payments expected in 2024.
- A remainder of initially foreseen 2023 funds, EUR 61 million, will be carried over to 2024. While remaining relevant in terms of sectors covered, the different programmes under preparation before the 7 October, will need to be reviewed and adapted rapidly to the changing circumstances on the ground, which are still being assessed by the development partners. At the same time, these funds, together with those foreseen for 2024, should be tabled in early 2024 in view of their swift adoption. They should take the form of a larger package of a value of at least EUR 400 million. The package will aim at conveying support to the PA and to lay the ground for longer-term economic and political stability

<sup>4</sup> European Joint Strategy 2021-2024

<sup>5</sup> Palestine Economy Portal

<sup>6</sup> Communication to the Commission on the review of ongoing financial assistance for Palestine (europa.eu); C (2023) 8300, 21.11.2023

in Gaza and West Bank, in line with the Council Conclusions.<sup>7</sup> This should be seen as part of a coordinated effort with international partners who would be encouraged to step-up their support to Palestine. The present Action Document constitutes the first financial decision foreseen for Palestine in that context.

The overall contribution of the EU proposed for 2023 amounts to EUR 118 400 000. Key components of this action are: a contribution to the payments of the Salaries and Pensions of civil servants (CSP, EUR 50 000 000); a contribution to the social allowances to vulnerable families (Cash Transfer Programme – CTP, EUR 35 000 000); a contribution to the payment for the medical referrals to the East Jerusalem Hospitals (EJH, EUR 18 000 000, including additional 5 000 000 in support of the Hospitals); safeguard measures (EUR 550 000) and an EUR 13 000 000 contribution to the administrative and technical capacity of the PA institutions, including 5 000 000 to expand and improve quality of care and diversify revenues for better financial sustainability with focus on Al Makassed and Augusta Victoria hospitals.

The action will contribute to the achievement of Sustainable Development Goals (SDGs): SDG 1 No poverty, SDG 3 Good health and wellbeing, SDG 5 Gender equality, SDG 16 Peace, justice and strong Institutions.

The EU has reviewed its ongoing financial assistance for Palestine through PEGASE as part of the Review of ongoing financial assistance for Palestine<sup>8</sup>. The conclusions from the Review of funding to Palestine will be integrated in the implementation of the present action.

### **1.3. Beneficiar(y)/(ies) of the Action**

The action shall be carried out in Palestine, included in the list of ODA recipients.

## **2. RATIONALE**

### **2.1. Context**

Palestine is home to 5.3 million people according to the Palestinian Central Bureau of Statistics (PCBS) projections for 2022, of which around 3.2 million in the West Bank (including East Jerusalem and Area C) and 2.1 million in the Gaza Strip. According to United Nations Relief and Works Agency for Palestine Refugees (UNRWA, 2022),<sup>9</sup> 0.901 million Palestinian refugees lived in the West Bank, and 1.6 million in the Gaza Strip. Over time, poverty deepened, with the latest data indicating that 36% of the Palestinian population lives below the poverty line. Meanwhile, the food insecurity situation has severely deteriorated. Palestine was added to the list of countries/territories of highest concern for food insecurity due to the severe escalation of conflict in October 2023.<sup>10</sup> According to the FAO around 2.2 million people in Gaza, nearly the entire population, now need food assistance as a consequence of the conflict. In terms of Human Development Index, Palestine was ranked 106th out of 191 in 2021, in the high human development category<sup>11</sup>.

Based on the latest assessment of PCBS, unemployment remains high at 24.4% in 2022, with high disparities by gender, area and age groups. These high and increasing levels can be ascribed to a set of factors. The Palestinian economic development has been severely hampered by the impact of the occupation, economic dependence on Israel, dysfunctional governance structures, high corruption, important deficiencies in the fiscal system and limited pace of reforms which resulted in an impaired Palestinian private sector, a damped investment atmosphere and de-development of many sectors of the economy, mainly in Gaza.

Gender equality remains a challenge in a country that is traditionally based on patriarchal social structures but there are also positive signals. Women, including adolescent girls, are identified as the most structurally

<sup>7</sup> European Council conclusions on Middle East, 26 October 2023 - Consilium ([europa.eu](https://europa.eu))

<sup>9</sup> <https://www.unrwa.org/resources/fact-sheet/unrwa-action>

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<sup>10</sup> Hunger Hotspot for the period Nov 2023-Apr 2024 ([fightfoodcrises.net](http://fightfoodcrises.net)). The report also mentions that “The conflict is highly likely to lead to a staggering increase in the magnitude and severity of acute food insecurity in Gaza.”

<sup>11</sup> UNDP (United Nations Development Programme). 2022. Human Development Report 2021-22: Uncertain Times, Unsettled Lives: Shaping our Future in a Transforming World. New York.

disadvantaged group by the UN vulnerability assessment and the Ministry of Social Development (MoSD) social development sector strategy 2021-2024.

The institutional governance and human rights situation has also been worsening. Since the 2007 suspension of the Palestinian Legislative Council (PLC), legislation has been adopted through presidential decrees that are de facto applied only in the West Bank. In Gaza, Hamas has been enacting laws through a proxy PLC. In the absence of parliamentary oversight, the executive accumulates too many powers undermining the democratic system. In addition, 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.

Regarding the functioning of the Public Administration, the government has included Public Administration Reform (PAR) within its national priorities - National Policy Agenda and National Development Plan (NDP). PAR has also become at the centre of recent efforts, by establishing a presidential committee on PAR in October 2021, and by introducing the Reform Agenda in May 2022. The Reform Agenda aims to streamline the public administration, reduce public spending by notably containing the wage bill, and modernising civil service.

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 focused 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 addressed two key fiscal issues: health referrals and net lending in relation to local authorities. It has been complemented by the Tax Revenue Strategy 2022-2026, with focus on domestic revenue mobilisation, tax avoidance and compliance, and tax efficiency. A new PFM reform strategy is expected to be developed by the end of 2023 as part of PA's next strategic planning framework exercise for 2024-2029.

In the area of social services delivery, the Social Development Sector Strategy 2021-2024 provides the framework for social protection policy reforms in Palestine. It adopted a rights-based approach and more recently the shock responsiveness of the system is at the core of the reforms. The three main objectives are: (1) Preventing Multi-dimensional Poverty; (2) Effective national and local social protection measures; and (3) Enhancing government standards, integrity and transparency. 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 and provision of comprehensive integrated quality services 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".

This general context has been compounded by a worsening macro-fiscal situation since 2019. Already before the 7 of October, IMF pointed to a deteriorating outlook for the Palestinian economy in the context of a volatile political and security situation, with persisting risks. The dire fiscal situation has been worsened by the slow pace of reforms, lack of progress on the negotiations around the fiscal files with Israel<sup>12</sup> and, most of all, the lack of instruments to address it. The PA has continued to suffer from increased Israeli deductions from clearance revenues in the first half of the year. This has already led to a cash-based execution of the 2023 budget and constrained the full payment of public sector wages and pensions (paid up to 80% since late 2021) and cash transfers to the most vulnerable. The PA has exhausted its ability to borrow formally from the banking system, while the build-up of arrears, as the only source to cope with the financing needs, has negative repercussions on the economy at large.

## **2.2. Problem Analysis**

### ***Impact of the conflict***

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<sup>12</sup> Several fiscal files have been discussed between the parties, including, for instance the transfer of customs authority, the resolution of an agreed E-vat system, and agreement on the handling fee charged.

Since the beginning of the conflict, demand and supply constraints are hampering the ability of PA to provide essential services to the population and exacerbating the lack of liquidity in the economy. The war is affecting the Palestinian socio-economic situation on several levels.

First, clearance revenues the PA receives from Israel represent a significant share of the PA budget (60-65% of the total revenues), in accordance with the Paris Protocol.<sup>13</sup> This is a structural constraint to the PA budget. The revenues have not been transferred to the PA since October due to the stand-off between the Israeli and PA Ministries of Finance over the deducted tax revenues and Israeli demand not to pay salaries for the Gaza Strip PA employees. Although increasing in the last few years, the share of domestic revenues only accounts for around 30-35% of the total PA revenues. The escalation is expected to affect the amount collected, with an overall sharp drop exceeding 80%.

Second, before the current escalation unfolded, there were around 200 000 Palestinians from both West Bank and Gaza working in Israel and the settlements. The estimated contribution of the remittances gained amounted to around 15% of the PA GDP. With the escalation, Israel has suspended work permits for all Palestinians workers in its territory and settlements. Furthermore, the Israeli-imposed restrictions on movements within the West Bank are creating difficulties for 67,000 Palestinian workers in accessing their workplaces.

Third, the production, the service sector (tourism in particular) and trade are also showing a worsening trend. 80% of Palestine's exports are to Israel and more than 50% of imports from Israel. Exports and imports have been affected by high transportation costs linked to the restrictions on movements. As a consequence, the PA is still not able to pay the full salaries of public servants, with increasing cuts being foreseen for the coming months. This has strong implications in terms of socio-economic development and overall stability. Together with the payment of the salaries, the most urgent needs are granting an uninterrupted flow of revenue to the treasury to fund critical sectors: health, education, security and social services.

### Governance

With regard to public administration, one of the main challenges is the lack of clear responsibility over public administration reform (PAR) within the PA institutions, namely, the Cabinet Secretariat (CS), the Prime Minister Office (PMO), the General Personnel Council (GPC), the Ministry of Finance (MoF) and the Office of the President (OoP). This creates coordination difficulties and limits the capacity to design and implement reforms in a consolidated and strategic way. Moreover, the expanding role of the executive branch of the PA over the legislative and judiciary branches continues to shape the governance structure of the PA, in violation of the Palestinian Basic Law.

A sector working group on PAR, which could serve as a platform for European Development Partners (EDPs) and PA policy dialogue within the Local Aid Coordination Secretariat (LACS) structure is still absent. Therefore, EDPs' dialogue with the PA continued to be conducted in a less organised or inclusive manner.

Despite the crucial role that civil society actors must play in formulating administrative reform agendas, non-governmental organisations, academia, and the business sector are rarely involved in the policy making cycle. This reluctance to engage civil society actors stands against having responsive, accountable and transparent public governance.

Concerning PFM developments, progress has been noticed during 2021-2022 in relation to improved (i) management of assets and liabilities (public debt management), (ii) predictability and control in budget execution (in-year resource allocation, public procurement management, and financial control framework), and (iii) accounting and reporting (clearance of annual financial statements backlog).

The authorities have somewhat backslid on transparency of and more could be done to make the Citizens Budget timely-presented and user-friendly accessible source of information on management of public funds. The budget implementation report is available within more than a month delay and its online access is frequently disrupted. On a more positive note, the Ministry of Finance (MoF) had improved the budgetary coverage and made available monthly data on clearance revenue, deductions, and funds withheld by the government of Israel (GoI), improving this way on fiscal transparency and giving hopes for greater

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<sup>13</sup> Revenue collected by Israel on behalf of and transferred to the Palestinian Authority

accountability between the PA and GoI on so-called “fiscal (leakages) files”<sup>14</sup>. A first-ever Open Budget Survey assessment has been conducted in Q2 and Q3 2023 with the results to be tentatively included in the Open Budget Index 2023 Global Report (subject to validation of the results locally), serving as a basis for further, country-tailored, action plan on improving budgetary transparency.

Whereas attention in the last years has shifted to tackling a number of fiscal policy matters such as the oversized and unsustainable public wage bill<sup>15</sup>, excessive net lending<sup>16</sup> and costly health referrals financing<sup>17</sup>, it remains to be seen how the war will impact reform efforts in these areas, which have proven very challenging so far.

#### Foster institutional capacity for implementing social protection sector policy reforms

The Ministry of Social Development (MoSD) has limited financial and technical resources to implement the Social Development Sector Strategy. Concerning the main social protection system - the Cash Transfer Programme – implemented by the Ministry with an annual budget of around NIS 500 million (including donor contributions) - Development partners and humanitarian stakeholders are discussing with the Ministry ways to ensure the protection of the most vulnerable considering the financial limitations that compromise the CTP reliability in normal time and scalability and responsiveness in time of crisis. The Ministry has also been rolling out a refined Proxy-Means Testing Formula that should limit exclusion errors and carried out the (re)certification of 139,000 families in the West Bank and Gaza in 2022. Moreover, the Ministry is instrumental for the protection of people with disability, elderly, children and women in particular in relation to survivors of gender-based violence but is missing technical and financial means to fulfil its responsibilities as duty bearer.

#### Improve health financing and institutional capacity for implementing health sector policy reforms

The health financing system is unsustainable. The main two sources of public funding for health care are: i) the PA health insurance scheme, which is fragmented, with very low flat rate contributions (by public employees), 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 almost 12% of public expenditures and only 1.5% of public revenues, having become a source of major fiscal concern for the PA. One of the major issues is the inadequate services provided by the public sector leading to high cost of outside medical referrals (OMRs), particularly for cancer treatment, accounting for 40% of health expenditures. The high cost of OMRs continues to add financial burdens on the health system, contributing to a substantial debt and regular arrears to the East Jerusalem Hospitals and to other private hospitals in West Bank and Gaza, hindering provision of health care to the Palestinian population. Additional inefficiencies in the health care system relate to the procurement procedure, weak public hospitals and a lack of proper management frameworks. Rationalizing health expenditures with focus on health system efficiency is not only a health priority but as well a fiscal priority.

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

##### Good governance

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<sup>14</sup> Fiscal (leakages) files refer to the fiscal costs of the occupation and represents all Palestinian public revenues lost as a result of the protracted occupation. It represents the additional fiscal revenue that the Palestinian Authority could have raised if the occupation had not existed and the Palestinian people had had full control over their economic affairs.

<sup>15</sup> <https://documents1.worldbank.org/curated/en/09932001215224196/pdf/P17870707ee3d60d0b5460a16a39379461.pdf>

<sup>16</sup> Net lending is a serious problem facing Palestinian intergovernmental fiscal relations. Net lending arises when those LGUs that function as distributors of electricity and water services collect service fees from residents but rather than using those revenues to pay water and electricity suppliers, make only partial payment or no payment at all, thus accumulating arrears (World Bank, 2016, <https://documents1.worldbank.org/curated/en/320891473688227759/pdf/Public-Expenditure-Review-Palestinian-territories.pdf>)

<sup>17</sup> Increasing the efficiency of purchasing and management of OMR, which represent an important cost driver, addressing health insurance, particularly coverage and revenues, and drug spending are top priorities (World Bank, 2016, <https://documents1.worldbank.org/curated/en/320891473688227759/pdf/Public-Expenditure-Review-Palestinian-territories.pdf>)

In public administration reform (PAR), the PMO, the Cabinet Secretariat, the General Personnel Council (GPC), the MoF and the Office of the President are the main stakeholders.

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 has an increasingly vocal role in area of public sector integrity and transparency of public funds as well as participatory policy making and budgeting.

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

The main stakeholder is the Ministry of Social Development, which leads the social protection reforms and manages the national cash transfer programme supporting some 111,000<sup>18</sup> households in Gaza and the West Bank. Despite scarce financial resources, the MoSD is a dynamic institution initiating relevant policy reforms along the international agreed upon Social Protection Floors principles (Persons with Disabilities, Elderly, women survivor of gender-based violence, children experiencing violence by caregivers).

#### *Improve institutional capacity for implementing health sector policy reforms*

The Ministry of Health is the main stakeholder, together with the six East Jerusalem Hospitals: Augusta Victoria, St. Joseph, St. John, Al-Makassed, Jerusalem Princess Bassma Centre, Red Crescent Society. The Ministry is responsible for setting and implementing the health strategy and should play a key role in the health sector reforms. The 6 EJHs serve as the main centres for specialised care within the Palestinian health system. Due to inadequate services provided by the public hospitals, the MoH refer patients needing services and procedures that are not available in the West Bank and Gaza for treatment to the East Jerusalem Hospitals. The hospitals are legally independent from the PA, to which they are linked exclusively through contractual agreements.

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**

Over the years, PEGASE has been instrumental for the EU and EU Member States to support the Palestinian Authority in maintaining social stability. Since 2008, almost EUR 2.8 billion has been channelled through the three program components CSP, CTP and EJH, almost 18% of which coming from EU MS. In the early years, PEGASE represented a considerable contribution to the PA budget. Though, in 2022 the PEGASE CSP component represented only 2.82% of the total wage bill, against the 15.8% in 2008. Looking at the social expenditures, and due to the fiscal crisis, but also to PA priorities, the PEGASE contribution to the Cash Transfers Programme, initially representing 1/3 of the total amount, represents now almost a full contribution. The contribution to the payment of the arrears for the referrals to East Jerusalem Hospitals represents around 17%.

Although PEGASE is an ‘hybrid’ form of support to the budget of the PA, the evaluation of EU State Building Contracts (2012-2018)<sup>19</sup> shows that, in very fragile contexts of intervention, such support offers the opportunity to respond to urgent needs, in particular: maintaining the capacity of the Government to fulfil its core functions, minimizing the destabilising economic and social effects of crises/shocks, consolidating national systems to facilitate the implementation of structural policies for poverty reduction and to foster democratic governance.

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<sup>18</sup> From a total number of 111,000 families some 73,000 are supported by the CTP programme in 2022

<sup>19</sup> [Evaluation of EU State Building Contracts \(2012-2018\) \(europa.eu\)](https://ec.europa.eu/eurostat/web/state-building-contracts)

Although PEGASE was initially developed as payment mechanism allowing contributions from other development partners, with time it has progressively evolved as a fully-fledged programme. It now has a theory of change, support to reforms, taking place through the results-based component, as well as the complementary technical assistance and the enhanced policy dialogue.

The PEGASE evaluation for the period 2018-2019 concluded that “the triple (humanitarian-development-peace) 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 quality of the policy dialogue in the Steering Committee meeting in 2021 and 2022 has strongly improved with a clear multi stakeholder ownership on the Palestinian side, who expressed their interest of having a multi-annual indicative reform programme. Coordination and dialogue have improved, with Ministry of Finance having been presenting PA’s fiscal situation in a number of dissemination events during 2021-2022 while also responding positively on possible resumption of the macro-fiscal/ PFM working group in 2023.

### **3. DESCRIPTION OF THE ACTION**

#### **3.1. Objectives and Expected Outputs**

The **Overall Objective** of the PEGASE programme is to contribute 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, women and girls, men and boys;
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) Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the PA (contributing to Outcome 1);
- 1.2) Improved rights-based and shock responsive social systems (contributing to Outcome 1);
- 2.1) Strengthened PFM systems for better PFM outcomes in fiscal discipline, allocative efficiency, and service delivery (contributing to Outcome 2, indirectly to Outcome 1);

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;

**Contributing to Outcome 2 (not budgeted):** Improved coordination and policy dialogue related mechanisms between government, development partners and CSOs for enhanced policy dialogue at global and sector level. This output is not supported by funded activities.

#### **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 of PA eligible civil servants and pensioners, namely in the health, social protection, education and justice sectors. This is particularly relevant in the current context, with the ongoing stand-off on the transfer of clearance revenues and reduced possibility for the PA to pay the salary of its civil servants.

- **Cash Transfer Programme (CTP):** PEGASE will contribute to the CTP payments made by the MoF to households from the West Bank and Gaza that are registered in the social registry and were (re)certified by the MoSD in 2022 and beyond. The PEGASE reference population will be identified by an ex-ante verification to be carried out by an audit company in the course of 2024.
- **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.

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

Outputs produced in terms of capacity development through this action are complemented by substantial support provided by former PEGASE actions<sup>20</sup>. Proposed support in this action is the following:

- **Capacity development of PA institutions through twinning activities.** This component will cover areas relevant to the PA institutions, in line with the objective of strengthening the PA and delivering essential services.
- **Support to policy reforms along the international agreed upon Social Protection Floors (Persons with disabilities, elderly, survivors of gender-based violence (GBV), children experiencing violence).** It would entail supporting the MoSD for the implementation of key laws and policies, in particular related to persons with disabilities, elderly and protection of women against GBV as well as children experiencing violence.
- **Support to PA's PFM reform agenda.** This action will support the Palestinian Authority in the implementation of PFM reform strategies. It builds on the previous phase of the support to PFM reforms, implemented by the World Bank and funded by the EU and Denmark during 2018-2022, and also widening the areas of intervention to a number of selected PFM areas such as revenue mobilization and administration, debt management, fiscal statistics as well as gender budgeting and citizen engagement. Other specific activities could be included or re-prioritized in line with the evolving situation on the ground.
- **Support to the East Jerusalem Hospitals:** This action aims at expanding and improve quality of care and diversify revenues for better financial sustainability with particular focus on Al Makassed and Augusta Victoria Hospitals. Some examples of activities could include upgrades of areas, departments and units, provision of equipment and capacity building.

### **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. In

<sup>20</sup> These interventions concern the ongoing PAR programme with the OECD, 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, the technical assistance package under design for strengthening health financing system, as well as the ongoing twinnings and those to be signed.

December 2022 the draft ROF report of the Joint European Strategy in support of Palestine 2021-2024 was published with data covering the years 2021 and 2022<sup>21</sup>.

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 into place a Local Aid Coordination (LAC) working group in the areas of PFM and PAR, as in other sectors.

A number of elements will contribute to strengthen the policy dialogue: increased coordination; the enhanced governance system of the programme, with the strengthening the 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 2021 action.

### **3.3. Mainstreaming**

#### **Environmental Protection, 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 intervention is primarily centred on the governance of social services provision.

#### **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 as the CTP component provides social protection favouring women-headed household. PEGASE will contribute to priority 3 of the Country Level Implementation Plan (CLIP): ‘promoting economic and social rights and empowerment of girls and women’, as well as priority 4: ‘promoting equal participation and leadership, and possibly (TBC at project design) priority 1:’ ensuring freedom from all forms of GBV’. The MoSD supported by PEGASE is the main public institution in charge of women, girls and boys protection.

In 2022, 43% of the families receiving social allowances were female headed. MoSD is the lead PA institutions to protect children against violence. The ‘National Inter-Sectoral Violence against Children Strategy 2021-2023’ is a reference document reviewing violence against boys and girls at school and at home. According to this report, boys experience more violence by caregivers than girls (68.3% of boys below 11 years-old experienced physical violence, 26.1% severe physical violence and 79.1% psychological violence compared to 61.5%, 18.4% and 74.4% for girls). Finally, on-going preparation of new sector strategies 2024-2029 will have a stronger mainstreaming on gender and UNWomen is about to finalise an updated gender analysis, which will be taken into account once published.

#### **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 and the support to MoSD will contribute to it. In 2022, 15% of the head of families receiving social allowances were a PWD. The Ministry is finalising the Law for the protection of PWD. Some analysis is available and will be used for the programmes formulation: The 2019 ‘Situation Analysis of Girls with Disabilities in the State of Palestine’ produced by Jerusalem Princess Basma Centre (JPBC). The 2016 UNFPA report on ‘Women and girls with disabilities: needs of survivors of GBV and services offered to them’. According to this report, women and girls with disabilities

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<sup>21</sup> The report was discussed in a two-day seminar with the relevant line ministries of the PA on 18 and 19 Jan 2023.

are the group most vulnerable to violence compared with their male peers with disabilities as well as with girls and women without disabilities.

### **Democracy**

This action aims at supporting democratic governance, through promoting the principles of transparency, participation and accountability. These principles 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. The PEGASE DFS Cash Transfer Programme component is instrumental for the implementation of the triple nexus, allowing channelling of funds through the PA country systems in time of crisis or recovery and enhancing synergies between the humanitarian and development stakeholders.

### **Disaster Risk Reduction**

The MoSD, supported by EU and UNICEF, is aiming at improving the shock responsiveness of the social protection systems. Coordination within the Commission and with humanitarian actors are enhanced since the development of a roadmap to operationalise the humanitarian-development-peace nexus for social assistance.

### **3.4. Risks and Assumptions**

<b>Category<sup>22</sup></b>	<b>Risks</b>	<b>Likelihood (High/ Medium/ Low)</b>	<b>Impact (High/ Medium/ Low)</b>	<b>Mitigating measures</b>
1	No transfer of clearance revenues reduces the fiscal space of the PA. Welfare expenditures are further reduced. Further tensions arise in the West Bank	M	H	Dialogue of Commission services with the EEAS, the EUMS, Office of the Quartet and EU Delegation in Israel, besides the PA. Facilitator role of the EU and its Member States in the dialogue between the parties is key
1	Deterioration of the tense situation in the West Bank leads to further polarisation among the population and worsening of the socio-political conditions.	H	H	Diplomatic engagement backed by financial support to enhance the prospect of elections and the reintegration of the two public administrations in Gaza and in the West Bank.
1	The economic and fiscal situation further deteriorates, leading to a deterioration of the social situation in the West Bank.	H	H	Strengthen budget execution, including 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.
1	Further deterioration of political/security situation in the West Bank.	H	H	Continued dialogue with the Israeli and Palestinian stakeholders and other key regional players.

<sup>22</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.

4	Increased level of corruption further delegitimising the PA, and posing a key challenge to democracy, rule of law and economic development.	H	H	The issue is being addressed by an enhanced dialogue in the framework of the dedicated working group and a starting twinning with the relevant authority (Palestinian Anti-Corruption Commission). PEGASE includes enhanced mechanisms of verifications to limit the fiduciary risk.
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### External Assumptions

- The instability of the political situation as well as the escalation of violence will end.
- The EU and the rest of the international community stay engaged with the parties to enhance the perspectives of the two-state solution.
- The security situation does not prevent delivery of basic services by the public administration.
- 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 alive, 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.

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.

Since the onset of the hostilities between Hamas and Israel in October 2023, the Palestinian Authority has been facing increasing difficulties to fulfil this role due to its worsening fiscal situation.

By ensuring systematic and largely predictable contributions to the PA's recurrent expenditures through the PEGASE DFS mechanism, the EU will support the delivery of essential services in the PEGASE targeted sectors. Given the importance of the public sector in the Palestinian economy, this will also contribute to the stabilization of the economy and help prevent the West Bank from economic collapse. Technical assistance will continue to support the PA in the main sectors. In particular, the programme will continue to 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.

The chain of results should be considered on the basis of the following perspective.

### 3.6. Indicative Logical Framework Matrix<sup>23</sup>

	<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 m p a c t ( O v e r a l l O b j e c t i v e )	Contributing to a democratic, accountable, economically viable Palestinian state as well as the fulfilment of social rights	SDG 1 GERF 1.23  **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: TBC after PECS results in 2024	PCBS/UN SDG statistics	<i>Not applicable</i>
		SDG 3 GERF 1.27  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: TBC after PECS results in 2024	PCBS/UN SDG statistics	
		Governance effectiveness Index	2022 : 16.98	2024: 22	WB – WGI	
		Voice and Accountability index	2022 : 21.26	2024: 25	WB – WGI	

<sup>23</sup> The indicators and logframe are being affected by the ongoing conflict between Israel and Hamas. Therefore, where needed, they will be modified when the situation stabilizes, in line with the discussions in the relevant working groups and policy dialogue forums.

	<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>
Ou tco me  (Sp ecif ic Ob ject ives )	<p>1. Improved access to social public services for all, women, girls, men and boys</p> <p>2. Improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting</p>	<p><i>1.1 Families and individuals receiving social allowances under the Cash Transfer Programme (in West Bank and Gaza), including female headed, elderly headed, people with disability headed</i></p> <p><i>1.2 Number of patients disaggregated by sex and region referred to East Jerusalem Hospitals for receiving needed specialised health care services</i></p> <p><i>2.1 Level of access to the budgetary information</i></p> <p><i>2.2 Level of rationalisation public service</i></p>	<p>1.1 August 2023: 108,936 families received a quarterly allowance of which 71,162 were paid by PEGASE (<i>X</i> female-headed, <i>Y</i> PwD, <i>W</i> elderly-headed <i>A</i> in Gaza, <i>B</i> in West Bank).</p> <p>1.2. 2022: 19,834 (Female 10,174, male 9,562) (Gaza 4,448, West Bank 15,386)</p> <p>2.1 The budget implementation reports in 2022 were made available within more than a month delay and its online access is frequently disrupted.</p> <p>2.2 Absence of functional reviews in 2023</p>	<p>1.1 2024 (MoSD) <i>X</i> families and <i>X</i> individuals received four quarterly payments (targeting under review)</p> <p>2025 (MoSD) <i>X</i> families and <i>X</i> individuals received four quarterly payments (targeting under review)</p> <p>1.2 maintain number of referred patients above 19,800 (2024)</p> <p>2.1.1 The budget implementation reports are made available within one month after the reporting period concerned, including publishing on the MoF website.</p> <p>2.2 Functional reviews are conducted in at least 2 ministries in 2024</p>	<p>1.1 MoSD/PCBS PEGASE report</p> <p>1.2 Annually -MoH data on referrals</p> <p>PEGASE report, also based on reports of partners</p> <p>MoF budget implementation reports</p> <p>GPC/MoF/OECD/WB reports</p>	<p>The fragile fiscal situation of the PA does not prevent delivery of basic services by the public administration</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>
Induced outputs	1.1. Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the PA	1.1 <i>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 2024: regular and timely payments of salaries and pensions	MoF report	Full and regular transfer of clearance revenues by Israel  The PA remains committed to the implementation of sector strategies
		1.2 <i>Regular social allowance transfers paid to eligible population</i>	1.2 2023 Two payments of social allowances	1.2 2024: 4 payments by the PA to allow 1.3	MoF report	
		1.3 <i>% of the monthly referrals cost is paid by the PA to EJH regularly</i>	1.3 2022 Irregular payments less than 50% of monthly cost is paid	1.4 2024 Systematic monthly advance payment to EJH ( $\geq 50\%$ )	MoF report	
Induced outputs	1.2 Improved rights-based, and shock responsive social systems (ROF outcome 2)	1.2.1 <i>Status of elderly allowance and People with disabilities (PWD) allowance</i>	1.2.1 2023: revised targeting methodology submitted by MoSD and endorsed by Cabinet Secretariat	1.2.1 2024: new social allowances system implemented  1.2.2 Draft strategy in place in 2024	1.2.1 MoSD social registry and CTP report 1.2.2 The draft health financing strategy	The PA remains committed to the implementation of sector strategies
		1.2.2 <i>Availability of a national health financing strategy for strengthening the health system to achieve progress towards Universal Health Coverage</i>	1.2.2 Non existent			
Direct Outputs	2.1. Strengthened PFM systems for better PFM outcomes (fiscal discipline, allocative efficiency, and service delivery)	2.1 <i>Level of efficiency in budget execution</i>	2.1 Commitment Control System ready for implementation in most line ministries.	2.1 2024: Commitment Recording System (CRS) implemented in 7 line ministries/departments/agencies and enforced.	PEGASE report based on MoF Reports / SAACB Audit Reports, WB report  Budget execution report 2024	The PA remains committed to its plans for improving service delivery
		1.1 <i>Amount of funding made available through PEGASE CSP</i>  1.2 <i>Amount of funding made available through PEGASE CTP</i>	1.1 Payment made for fixed tranche (2022)	1.1 Yes: 2024  1.2 2024: Four quarterly payments made and full	PEGASE ex-post audit, PEGASE reporting	

	<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>
	(CTP); referral costs to East Jerusalem Hospitals (EJH)].	<i>1.3 Amount of funding made available through PEGASE EJH</i>	1.2 2022: two payments (one partial payment made fully by MoF and one payment with PEGASE contribution of EUR 27.5 million)  1.3 Payment made (2022)	CTP PEGASE amounts disbursed  1.3: Yes: 2024		
	2. Enhanced administrative and technical capacity of the PA institutions and the East Jerusalem Hospitals	<i>2.1 Social protection on-going reforms (TBC at project formulation – elderly, PwD, GBV, violence against children ) are implemented</i>  <i>2.2 Number of medical units upgraded at Augusta Victoria and Al makassed hospitals</i>	2.1 TBC at project formulation  2.2. zero units supported	2.1 TBC at project formulation  2.2 Minimum two	MoSD, UN (ILO, UNICEF, WFP), World Bank report Hospitals reports	
	3. Improved coordination and policy dialogue related mechanisms between government, development partners and CSOs for enhanced policy dialogue at global and sector level;	<i>3.1 N. of PEGASE Steering Committee (SC) meetings held with related Action plan approved</i>	3.1 - 2 (2023)	3.1– At least 2 SC held as planned in 2024	Minutes of Meeting PEGASE report	

## **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 72 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 in duly justified cases.

### **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>24</sup>

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

##### **4.3.1.1 Twinning grants**

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

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

###### **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 objective 1 (more precisely outputs 1.1).

#### **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) in line with Article 112(4) of the Financial Regulation. 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.

In agreement with the Palestinian Authority, relevant safeguards under the Direct Financial Support mechanism will take into account the conclusion of the '*Review of ongoing financial assistance for Palestine*'<sup>25</sup>. The amount allocated for direct financial support is EUR 103 000 000 for the period of one year. This amount is based on the commitment of the partner country to allocate national budget resources to mitigate the socio-economic impact of the crises.

<sup>24</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu) 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, the OJ prevails.

<sup>25</sup> C(2023) 8300 final

Payment under the different components will be done in different instalments according to a calendar to be decided together with the PA.

These tranches will be disbursed based on the request of the MoF, and once the ex-ante screening is made on the lists of eligible beneficiaries.

Over the past years, the EU started to shift the CSP component 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. The current context constitutes an exceptional and/or duly justified case, as the unexpected events, external shocks and changing circumstances make the incentive-based approach impossible to implement through the current decision. Reforms in the key areas covered by the incentive-based approach in the past years (PFM, PAR, health, water and energy, sustainable financing, and service delivery) remain extremely important. Policy dialogue with the PA on the key areas of reform will continue and, when possible, the EU and the PA will continue to discuss the inclusion of benchmarks in line with the evolution of the situation.

#### **4.3.4. Indirect Management with a pillar-assessed entity<sup>26</sup>**

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

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:

- i) Specific mandate in the social protection sector.
- ii) Knowledge of the policy and regulatory framework in Palestine.
- iii) Experience in Palestine and the Middle East and North Africa region.
- iv) Experience in shock responsive social protection systems (triple nexus).
- v) Experience in governmental social protection systems and institutional capacity building.
- vi) Ability to work with multi-stakeholders.

For effectiveness and efficiency purposes, it is proposed to continue using a One UN Joint Programme.<sup>27</sup>

The implementation by this entity entails policy support to strengthening the foundations of a Palestinian social protection floor with a focus on the most vulnerable groups, most notably older persons, people with disabilities, children experiencing domestic violence and women survivor of gender-based violence as well as to make the social protection system more shock responsive. This will build on existing programmes supporting the Ministry policy framework, coordination efforts and capacity and utilising exchange of learnings with regional and EU peers.

This concerns the implementation of the objective of the action as indicated under output 2.1. - Support to Social Protection.

##### **4.3.4.2 Indirect Management with a pillar-assessed entity – Support for implementation of the PFM reforms**

A part of this action will be implemented in indirect management with a pillar – assessed entity. This implementation entails supporting the MoF and other concerned entities and institutions to operationalise and advance the PFM Strategy 2021-2023 and PFM agenda post-2023, Tax Reform Plan 2022-2026, key fiscal issues (wage bill, health financing and net lending) and related reforms.

The entity will be selected by the Commission's services using the following criteria:

- i) Access to and strong relationships with the PA at the technical, senior and political levels around PFM and fiscal issues;

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<sup>26</sup> The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessment.

<sup>27</sup> UN Joint Programme is an implementing modality part of the UN reform funded by EU. This is about a UN Joint programme with a lead agency and some component implemented by other agencies according to the technical division of labour.

- ii) In-depth sectoral expertise, alongside extensive knowledge of the development of these sectors in the Palestinian context;
- iii) A presence in East Jerusalem, Ramallah and/or Gaza.

This concerns the implementation of the objective of the action as indicated under output 2.1 - Support to PA's PFM reform agenda.

#### **4.3.4.3 Indirect Management with a pillar-assessed entity – Support to East Jerusalem Hospitals**

A part of this action will be implemented in indirect management with a pillar – assessed entity. This implementation entails supporting the East Jerusalem Hospitals and in particular Al Makassed and Augusta Victoria to expand and improve quality of care and diversify revenues for better financial sustainability.

The entity will be selected by the Commission's services using the following criteria:

- i) In-depth sectoral expertise, alongside extensive knowledge of the development of the sector and of the policy and regulatory framework in the Palestinian context.
- ii) Experience in Palestine and the Middle East and North Africa region.
- iii) Ability to work with multi-stakeholders.

This concerns the implementation of the objective of the action as indicated under output 2.1 – Support to East Jerusalem Hospitals.

#### **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.

If the implementation modality under indirect management as defined in section 4.3.4.3 cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by grants under direct management would be used:

(a) Subject matter of the grant (s)

Expand and improve quality of care and diversify revenues for better financial sustainability.

(b) Type of applicants targeted.

An international institution, a non-governmental organisation, a private or public body operator, a foundation.

#### **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 2023 (amount in EUR)</b>	<b>Third-party indicative contribution, in currency identified</b>

<b>Output 1.1 Eased financing for social public services composed of:</b>	<b>103 550 000</b>	<b>5 000 000</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 4.3.3.	35 000 000	
Direct Financial Support (direct management) - – East Jerusalem Hospitals (EJH) cf. section 4.3.3.	18 000 000	
Procurement (direct management) for contracts for safeguarding measures - cf. section 4.3.2		N.A.
<b>Output 2.1 Enhanced administrative and technical capacity of the PA institutions and East Jerusalem Hospitals composed of:</b>	<b>13 000 000</b>	
Indirect Management with pillar-assessed entity(ies) – Social Protection, section 4.3.4.1	2 000 000	
Indirect Management with a pillar-assessed entity –Support to PFM reforms, section 4.3.4.2	2 000 000	
Indirect Management with a pillar-assessed entity –Support to east Jerusalem Hospitals (focus on Al Makassed and Augusta Victoria), section 4.3.4.3	5 000 000	
Grants – total envelope under section 4.3.1.1 (twinning)	4 000 000	
<b>Procurement</b> – total envelope under section 4.3.2	<b>550 000</b>	
<b>Contingencies</b>	<b>1 850 000</b>	
<b>Totals</b>	<b>118 400 000</b>	<b>5 000 000</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 MoF, in close cooperation with the PMO and relevant Ministries. The MoF is in charge of the management of the DFS components and the daily correspondence with the EUREP.

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 exists to ensure overall guidance and coordination among the different actors involved (indicatively MoF, EUREP, PMO, MoSD, MoH). Others might be invited as appropriate. It will meet at least twice a year.

The EU, in consultation with the Palestinian Authorities, 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, Foreign, Commonwealth and Development Office -FCDO, 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 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 Outputs and contribution to the achievement of its Induced Outputs, Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the logframe matrix.

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).

Arrangements for monitoring and reporting, including roles and responsibilities for data collection, analysis and monitoring:

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

The European Development Partners (EDPs) have a local division of labour under the European Joint Strategy 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.

The consequences of the escalation between Hamas and Israel have created disruption in the continuity of these monitoring arrangements. Therefore, they will be maintained as far as the current situation allow and might be modified to reflect the changing circumstances.

## **5.2. Evaluation**

Having regard to nature of the action, evaluations will not be carried out 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. Following the ROM 2023, it will be decided in 2024 if and when an evaluation of follow up ROM is necessary.

## **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](#) 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.